



REPORT ON

‘A Study on SME Banking System and Procedure of BRAC Bank Limited’

SUBMITTED TO

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To

Riyashad Ahmed

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Subject: Submission of the Internship report

Dear Sir,

I am submitting my internship report titled “*A study on SME Banking System and Procedure of BRAC Bank limited*” as partial requirement of internship program under MBA curriculum.

I would like to thank you for assigning this report as it provided me with the opportunity to venture into the real life scenario and to broaden the horizon of my understanding on how syndication is arranged and all the work that goes into it.

I sincerely hope that my work will come up to the level of your expectation.

Sincerely Yours,

Mohammad Moniruzzaman

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Acknowledgement

First of all I would like to thank almighty Allah for giving me the patience and proper time to complete the internship program successfully.

Completion of this report has made me grateful to a number of persons. I would like to acknowledge my honorable supervisor Riyashad Ahmed for giving me the opportunity to prepare the report. His valuable suggestion made it easy for me to prepare the report. I also thank Mr. Md. Shafiul Alam, my BRAC Bank Ltd. Supervisor, for his great support to prepare this report. And also thanks to my others helpful colleagues.

The report contains high voltage and its all information is collect from the BRAC Bank Ltd. This is a very important part that these reports are the BRAC Bank Limited information and SME in Bangladesh evaluation. The major objective is to know details of SME loan & evaluation of BRAC Bank Limited. and also The SME products and its disbursement & recovery and expectation of customer of BRAC Bank Ltd. So, also thanks to BRAC bank Ltd.

Mohammad Moniruzzaman

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Executive Summary

BRAC Bank Limited is a scheduled commercial bank in Bangladesh. It established in Bangladesh under the Banking Companies Act, 1991 and incorporated as private limited company on May 20, 1999 under the Companies Act, 1994. Its operation started on July 4, 2001 with a vision to be the market leader through to providing all sorts' support to people in term of promoting corporate, small entrepreneurs and individuals all over the Bangladesh. BRAC Bank will be a unique organization in Bangladesh. The bank consist of major divisions named 1) Corporate banking, 2) Retail banking, 3) Operations 4) Small & Medium Enterprise (SME). At present the Bank operating its business by 165 branches and 624 SME offices. BRAC Bank is the first local commercial banks that proving online banking service to its customers from the very beginning of its starts. BRAC Bank, for the first time among local commercial banks, starts providing loan facilities to small and medium trading, manufacturing and service oriented enterprises all over the country. The bank has already established its network in different area of the country with assistance of BRAC.

BRAC Bank is trying to develop economic condition of the country. So the bank provides loan facility 3 to 30 lacs taka to that small and medium enterprise that has no easy access to banks/financial institutes. The bank already established 41 Zones and 624 SME offices all over the country. There is 2104 Officers providing service to clients. Till 2014, the bank Disbursed 471618 loans which amount is Tk 291871 million. The success of SME will largely depends on the selection of a business and man behind the business. BRAC Bank provides this facility to those whose business operation is minimum one year and environment friendly business. It provides no loan facility to tobacco business. The business should be legally registered and must have valid trade license. The entrepreneur should be physically able, preferably between the ages 21 to 50. She/he must have the necessary technical skills to run the business and acceptable social standing in the community i.e. people should speak highly of him/her. BRAC Bank gives equally important to the guarantor to getting the SME facility. The guarantor must have the ability to repay the entire loan and is economically solvent. The guarantor should know the entrepreneur reasonable well and should preferable live in the same community. SME loan can be repaid in two ways, 1) in equal monthly loan installment with monthly interest payment. 2) By one single payment at maturity, with interest repayable a quarter ends residual on maturity. Customer relation officers search new potential customer by providing door-to-door service. They talk with clients and monitor their manners, activities of their business and provide the loan to the potential customers. SME, BRAC Bank may provide 100% of net required working capital but not exceeding 75% of the aggregate value of the inventory and account receivable.

Normally, organizations meet their working capital from overdraft loan but BRAC Bank designed the loan to meet working capital but as term loan which is repaid in installment. The customer relation officers also monitor the borrowers' activities after the loan disbursement. Monitoring also facilitates the buildup of an information base for future reference.

Asset Operation Department acts as the last line defense of the bank. This division is responsible for the complete disbursement, recovery and closing procedures. The procedures start from the sanction of the SME loan. The respective select potential enterprise, collect confidential information about the enterprise, open clients account in the respective bank where BRAC Bank has its own account, filled up CIB form and send it to the Asset Operation Department. Then the Asset Operation Department starts its activities. The Asset Operation Department sends the CIB form to the Bangladesh Bank to know the CIB status of the applicant. If the report found clean then it send back to the unit office for send proposal for the loan. Then the unit office sanction loan and send it again in Asset Operation Department for disbursement. The Asset Operation Department then prepare a loan file and checks all necessary documents, prepare a list and disburse it. Then the Asset Operation Department starts enter all information regarding the loan in the banking software "Millennium Banking System (MBS)" which includes initial ID generation, loan account opening, risk fund collection, activation of the loan. Post disbursement manual activities includes repayment schedule send to unit office, documents stamp cancellation, send the loan file to archive. Recovering activities include receive SMS/Fax for installment deposit, entry the installment information to MBS, print vouchers, cross check SMS/Fax and solve problems, repayment voucher check and posting. Closing activities includes receive SMS/Fax requesting for closing, bring the loan file from archive, obtained approve to closing from the concern authority, checking in MBS, SMS sent to concern customer relation officer (CRO), receiving and print closing SMS/Fax.

The core competence of the BRAC Bank is to provide the fastest loans to the clients in this country. To retain this competitive advantage BRAC Bank would provide computer and palmtop facilities whether they can give fastest services to clients than other banks. Also to convey the customer focus, BRAC Bank is trying to reduce collateral securities than other banks. It provides more collateral free secured loans to capture the market. Regarding the services by the CRO, almost all clients are satisfied by get these quick facilities from them. Though it is pioneer division of this bank, I tried to give an in-depth analysis for every factor, which relates the SME division from the perspective of customer satisfaction and dissatisfaction.

The Organization

BRAC Bank Limited

Introduction:

BRAC Bank Limited is a full service scheduled commercial bank. It has both local and International Institutional shareholder. The bank is primarily driven with a view of creating opportunities and pursuing market niches not traditionally meet by conventional banks. BRAC Bank has been motivated to provide “best-in-the-class” services to its diverse assortment of customers spread across the country under an on-line banking dais. At present, BRAC Bank is one of the fastest growing banks in the country. In order to support the planned growth of its distribution, network and its various business segments, BRAC Bank is currently looking for impressive goal oriented, enthusiastic, individuals for various business operations. The bank wants to build a profitable and socially responsible financial institution. It carefully listen to the market and business potentials, It is also assisting BRAC and stakeholders to build a progressive, healthy, democratic and poverty free Bangladesh. It helps make communities and economy of the country stronger and to help people achieve their financial goals. The bank maintains a high level of standards in everything for our customers, our shareholders, our acquaintances and our communities upon, which the future affluence of our company rests.

History:

BRAC Bank Limited started its journey on 4 July 2001 originating from its source BRAC – *Bangladesh Rural Advancement Committee*. BRAC is known as the one of the most successful NGO in the world.

BRAC Bank originated due to successful story of BRAC microfinance. The Chairman, Sir. Fazle Hasan Abed believed that until modern, competitive financial services are readily available – including credit in amounts, terms and conditions that small can access, Bangladesh will not be able to create the large middle class that is a prerequisite to social stability. So, the **BRAC Bank Limited** came into existence due to the need of mass financing, which wouldn't have been possible with BRAC microfinance itself.

BRAC Bank has been the fastest growing local bank in the year 2004 & 2005 with a double bottom line of vision. This organization wants to mix profit and social responsibility together and as such serve the people of the nation. The parent organization that is Bangladesh Rural Advancement Committee (BRAC) has been working since the independence of the country for the development of the deprived people. The concept of

BRAC Bank is also based on helping those deprived people and at the same time making profit by providing top class financial services. For this reason 50% of the total loan portfolio of this bank is dedicated towards small and medium enterprises. It has been found that there exists a segment of people who do not have access to capital but if fund is given to them, they can excel in their own small and medium businesses and as such contribute in the development of the economy.

Today BRAC Bank is considered as third generation bank extending full range of banking facilities by providing efficient, friendly and modern fully automated on-line service on a profitable basis. Since its inception, it has introduced fully integrated online banking service to provide all kinds of banking facilities from any of its conveniently located branches.

Product and service offerings:

BRAC Bank Ltd. is currently focusing on four different areas of business activities. These are:

- SME Banking
- Retail Banking:
 - ✓ Retail Distribution
 - ✓ Non Funded Business and Secured Value Center.
 - ✓ Alternate Delivery Channel
 - ✓ Unsecured Value Center
 - ✓ Liability
 - ✓ Service quality/business intelligence
 - ✓ Collections
 - ✓ Cross selling
 - ✓ Regional Distribution
- Corporate Banking
- Probashi Banking
- e-Banking
- Treasury & Financial Institution
- Marketing & Corporate Affairs

SME Products:

Currently BRAC BANK is offering 13 SME packaging. These are listed and briefly explained below:

- ❖ **Anonno Rin-** “AnonnoRin” is a business loan designed to finance small scale trading, manufacturing and service ventures, especially to help small and medium entrepreneurs.
- ❖ **Apurbo Rin-** Apurbo is a loan facility for Small and Medium business. Apurbo loan has been designed and target small entrepreneurs.
- ❖ **Prothoma Rin-** "PROTHOMA RIN" is a loan facility for small and medium sized business, which is operated by women entrepreneur. The product offers terminating loan facilities for the purpose of working capital finance and/or fixed assets purchase. Loan limit is from minimum BDT 3 lac up to maximum of BDT 9.5 lac.
- ❖ **Shomridhi Rin-** “Shomridhi Rin” is a loan facility to meet import-export related expenses, post import expenses, tax/duty payment, local bill purchase, working capital and fixed asset finance
- ❖ **Shompod Rin-** SHOMPOD is a business loan facility starting from BDT 1 million to BDT 35 million against home or business premise mortgage.
- ❖ **Shokti Rin-** Shokti is a Business loan under which one can avail BDT 1 million to BDT 10 million to meet any kind of business needs.

Retail Banking:

There are retail banking products of three categories. One is Loan Products, second is Deposit Products and the other is Cards. In Loan Products category there are eleven services/products facilitating clients' demands. These are:

Salary Loan, Now Loan, Car Loan, Teacher's Loan, Study Loan, Travel Loan, Credit Card Loan, Top Up Loan, HighFlyer Loan, Secured Loan/ OD and Doctor's Loan.

Under Deposit Products category currently there are ten services/products in total. These are: Fixed Deposit, Interest First, Abiram Account, DPS, EZee Account, Savings Account, Short Term Deposit, Current Account, Salary Account and Step Up Fixed Deposit.

The Co-Branded Cards are from Aarong, ALICO and DIA Gold. The BRAC Bank Aarong ATM Card gives users 5% cash back facility from shopping in any Aarong outlets. The holder of BRAC Bank ALICO ATM Card can enjoy a special life insurance facility with insurance coverage of upto BDT 200,000.00. And BRAC Bank DIA Gold ATM card holder will enjoy a special cash back and cash discount feature. This feature is 10% discount from any diamond product bought and 8% discount on making charge of any gold products bought from DIA Gold.

Corporate Banking:

Corporate Banking section has three types of coverage currently. These are:

1. Corporate Loan Products
2. Trade Financing
3. Corporate Cash Management

Corporate Loan Products:

Overdraft – This is an on-demand credit facility designed to meet day-to-day operational activities of the business, including purchase of raw materials and expenses.

Term Loan – Short Term Loan/Revolving Loan: This scheme is to meet different short-term fund requirements of the client. Payment of duty, Tax, VAT and other expenses related to the release of goods from customs through pay orders in the name of customs authority or Bangladesh Bank cheque is payable through this scheme.

Lease Finance – One of the more convenient long-term sources of acquiring capital machinery and equipment. The client is given an opportunity to have exclusive rights to use an asset, for an agreed period of time, against payment of rent.

Loan Against Trust Receipt (LATR) – This is advancement against a Trust Receipt provided to the client when the documents covering an import shipment are given without payment. Under this system, the client will hold the goods of their sale proceeds in trust for the bank, until the loan allowed against the Trust Receipt is fully paid.

Trade Finance:

Letter of Credit (LC)

This facility is related to import or local purchase of different items. It is also provided for the import and export of goods (such as raw materials, machinery, equipment, any trading item).

Letter of Guarantee (LG)

To meet different contractual requirement such as participating in Bid, Performance Guarantee and Advance Payment guarantee for different contractual requirements.

Corporate Cash Management:

NCS – BRAC Bank will collect clients' bills through their Bills Pay Machines in the strategic locations of the city and also at the correspondent branches, where the BRAC Bank branches are not available and at the booths.

PTS – PTS will allow clients to disburse all kinds of payments anywhere in the country through BRAC Bank's own branch network in Dhaka, Chittagong, Sylhet, Savar, Feni and the partner bank branches all over the country.

Cash Management Services – BRAC Bank's national Collection Services (NCS) is designed to assist corporate with nationwide collection requirements by providing faster funds availability in a cost- effective manner.

Cash Collection Services: Through BRAC Bank Cash Collection Services they collect cash directly from clients offices/business premises. The whole process is arranged with executive logistic services.

Probashi Banking :

Our nation's workforce who are away from their families, relatives, friend and above all, from breathing the air of our country, working abroad for the prosperity of their lives and the nation in the long run while sacrificing a lot. BRAC Bank, through Probashi Banking services, is facilitating the banking needs of remitters. Currently BRAC Bank is providing six services for remitters under Probashi Banking. These products/services are described below:

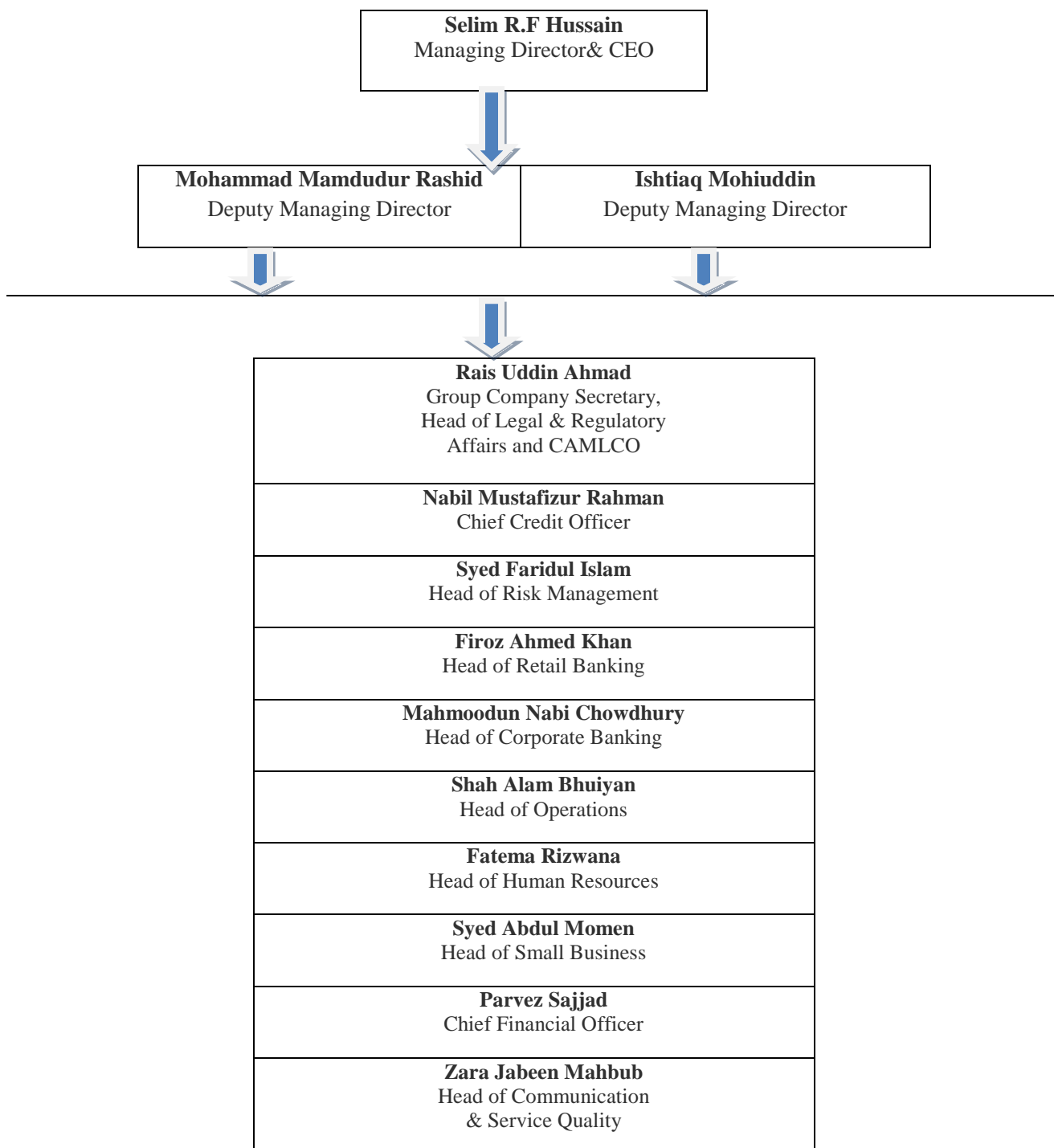
Probashi Current Account – It is ideal for Probashi Bangladeshis who do not wish to earn interest due to religious reasons. This account also comes with cheque book and ATM card and is ideal for regular transaction.

Probashi Savings Account – This account provides interest which is paid in June and December of each year. This account comes with a cheque book and ATM Card and is ideal for Probashi Bangladeshis who want to save. Accounts are maintained in Taka.

Probashi DPS – Is a savings scheme specially designed for the Probashi clients. This service requires monthly installment of minimum Tk. 500.00 and any multiples. Provides a savings account with a personalized cheque book, earnings remitted to savings account will be automatically transferred on the due dates and loans are provided against 90% of deposited amount.

Probashi Fixed Deposit – A fixed deposit account allows remitters to deposit their money for a set-period of time, thereby earning them a higher rate of interest in return. Fixed Deposits can be made from 3 months to 3 years. Interest is paid on the maturity at a very attractive rate. Accounts are maintained in Taka.

Operational Network Organogram:



Vision:

Before stating the vision of BRAC Bank Limited, Bangladesh, let us first have the idea about the Bank's plan of action and goals in Bangladesh. BRAC Bank will promote broad-based participation in the Bangladesh economy through the provision of high quality banking services. The Bank plans to achieve this by increasing access to economic opportunities for all individuals and businesses in Bangladesh with a special focus on currently under-served enterprises and households across the rural-urban spectrum. BRAC Bank believes in mutual benefits, the Bank's and its clients' benefit will depend on each other. So the pursuit of profit and developmental goals is mutually reinforcing. The target is to increase the ability of under-served individuals and enterprises to build their asset base and access market opportunities so that it increases the economic well-being for all Bangladeshis at the same time, and this will contribute significantly to the profitability of the bank.

BRAC Bank intends to set standards as the market leader in Bangladesh. It will demonstrate that a locally owned institution can provide efficient, friendly and modern full-service banking on a profitable basis. It will produce earnings and pay out dividends that can support the activities of BRAC, the Bank's major shareholder. Development and poverty alleviation on a countrywide basis needs mass production, mass consumption and mass financing. BRAC Bank's goal is to provide mass financing to enable mass production and mass consumption and thereby contribute to the development of Bangladesh. The Bank's goals are thus aligned with those of BRAC.

The Vision Statement:

We know that a vision statement should be one, long sentence with specific details about where an organization wants to be in future. In the long run a business or an organization has to meet a certain target or goal, which is what, comes into the vision statement. So the above plan of BRAC Bank is summarized as follows: "Building a profitable and socially responsible financial institution focused on Markets and Business with growth potential, thereby assisting BRAC and stakeholders build a "just, enlightened, healthy, democratic and poverty free Bangladesh".

Job Description:

This is a SME loan related job. A new project of 10 thousand SME customers Database. What I did is fill the gap of customer profile like, Subject code, Loan status, Installment status etc. I did another job is phone calling to the customer and confirm the meeting of our officers, and also offering the loan product. If customers feel interest then I contact with our unit office officials and said them to meet those customers. In my 3 months internship, I got 3 days training program from BRAC bank Ltd. I visited 1 branch office, 1 unit office and 1 monitoring office. From these offices, I have got various kind of experience of banking systems, operations procedure, customer relationship etc.

Different aspects of job performance:

There few specific responsibilities I have performed. These are:

CIB Search: CIB (Credit Information Bureau) search one of my core responsibilities. In Bangladesh bank website, put various information of customers and check the customers loan status and fill up some gap of the customers information like, subject code, installment status etc.

Information collection, Data entry and Compiling Data: From CRO (Customer Relationship Officer), some scanned information of customer I have got. From that raw information I entry in customers database. After completion data entry I arrange that in one file this is called compiling.

Phone call and Confirmation: At the very last time of my internship, I perform in phone call to offering home loan to the listed customer and also confirming that selected CRO visited customer or not. From the customer reply I also put their status on their database. If customer interested I confirm to CRO to further visit to the customer. If some other reason then I just put their reply in their database.

Critical observations and recommendations:

Boss and subordinates relationship: I observed that between boss and subordinate has friendly relationship for some cases. But there are also some traditional boss exist whose only need order and work. They just don't much talk with subordinate without any works. But there are more leaders whose have power to control their subordinate with motivation and caring.

Organizational culture and behavior: Organizational culture and behavior is well maintained. In any organization there much more need ethical culture and behavior than paper rules and regulation. In BRAC bank I saw that is very good. Every employee have positive attitude about their office culture and behavior.

Employees reward and orientation: BRAC bank has structure employees' reward and orientation facilities. They strictly judge every employees performances which called performance appraisal and give them reward, increment and promotions. Employees also use their pin to any aarong shop with 10% discount. On the other hand compare to others bank BRAC bank salary structure bit low. So bank should think about it.

Working environment: BRAC bank ensures good working environment for its officials. But not the best, bank should make friendlier working environment for employees. It may produce more works.

Medical and Day care facilities: BRAC bank head office has medical and day care facilities but others office don't have. So authority should focus others offices.

Centralized structure: BRAC bank follows centralized official structure. In every important decisions comes from top level and also every important have to pass from top level. I think it is not good idea. Decentralized is best idea to work efficient end effectively.

Transport facility: BRAC bank has no transport facility for inside officials. They just only provide bike to the CRO for customer visit. BRAC bank should introduce this facility for better security of its employees.

Summary:

The project is prepared to analyze the SME loan prospect and procedure and also BRAC bank study. Here I am trying to elaborate whole business policy and their description. In chapter 1, theoretical aspect of SME banking in Bangladesh is being stated. In chapter 2, descriptive study of BRAC bank SME banking system and also describe their loan and deposit product and services. In chapter 3, detail discussion several loan product of BRAC bank and their primary to disburse procedure and repayment system. In chapter 4, trying to do some competitive analysis, result and discussion of the report. And the end chapter 5, there are some recommendations and draw the conclusion.

Description of the project:

○ Objective of the project:

Broad Objectives:

- To analyze the repayment behavior of SME loan borrowers
- To know SME loan and its process of recovery

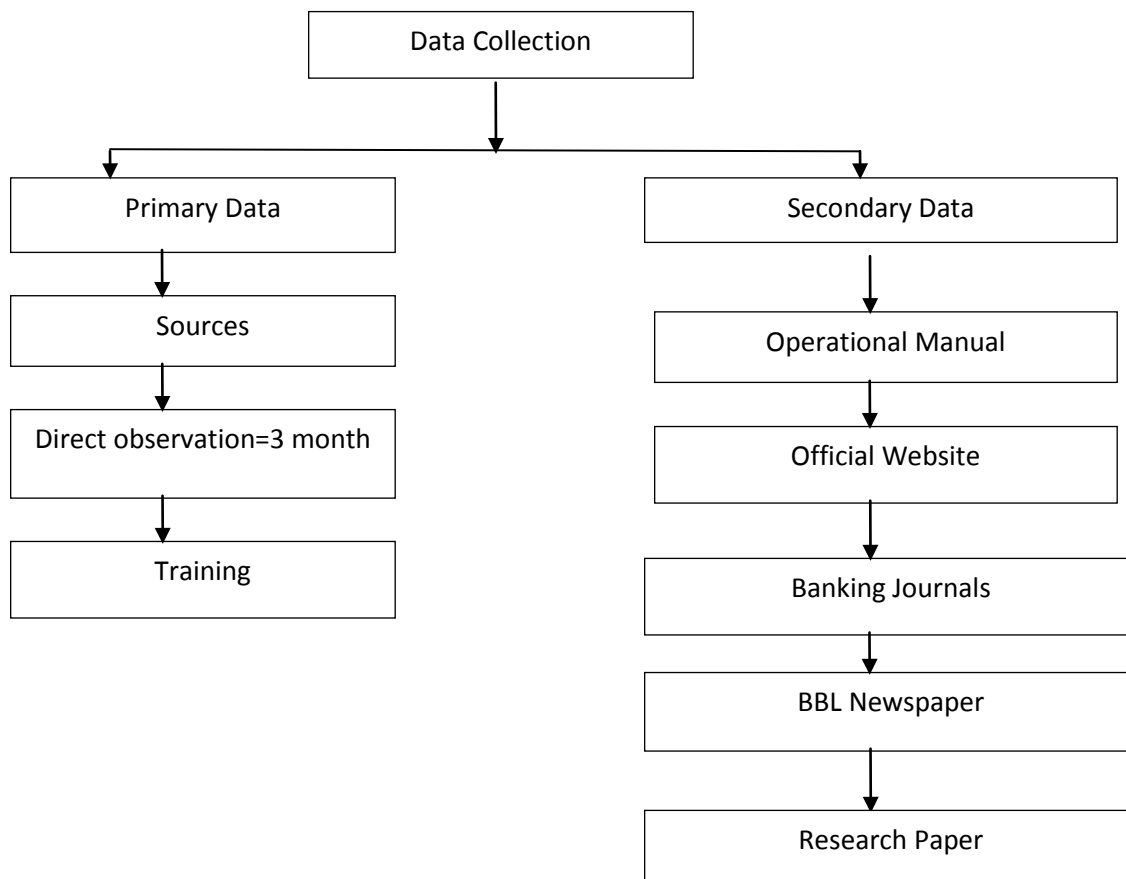
Specific Objectives

- To find out basic appraisal of SME loan
- To know the enterprise selection criteria to provide SME loan
- To know the terms and conditions of SME loans
- To know the disbursement and recovery procedures of SME loans
- To make some policy implications and conclusion to further the development of SME loan products of BBL.
- To know the work process and monitoring system of Asset operation Department
- To access the key performance indicator of the department
- To know how the SME loan borrowers would behave in repaying their loan.
- To know whether SME loan borrowers are dully paying their installments or not.

Methodology:

The study uses both primary data and secondary data. The report is divided into two parts. One is the Organization part and the other is the project part. The parts are virtually separate from one another. The information for the organization part of the report was collected from secondary sources like books, published reports and web site of the BRAC Bank Limited (www.bracbank.com). For general concept development about the bank short interviews and discussion session were taken as primary sources.

The information for the project “Analysis of SME loan in BRAC Bank Limited “both were collected from primary and secondary sources. For gathering concept of SME loan, the product program Guideline (PPG) thoroughly analyzed. Beside this observation, discussion with the employee of the SME department and loan administration division they said bank was also conducted. More over a market survey was conducted with a specific questioner. To identify the implementation, supervision, monitoring, and repayment practice –interview with the employee and extensive study of the existing file was and practical case observation was done.



Primary Data

- ❖ Raw data is a term for data collected on source which has not been subjected to processing or any other manipulation. (Primary data), it is also known as primary data. It is a relative term.
- ❖ New data gathered to help solve the problem at hand. As compared to secondary data which is previously gathered data. As example is information gathered by a questionnaire.
- ❖ Information collected directly from the source through observation, conversation, and/or participation. The degree of reliability, validity, and precision required depends on how you intend to use the information. Visitor response to surveys is one example of primary data. In this report I used
- ❖ Interviews of Customer relationship officers (CROs)
- ❖ Focus group meetings
- ❖ Direct observation

Secondary Data

- ❖ In research, secondary data is collecting and possibly processing data by people other than the researcher in question.
- ❖ Information collected by others such as government agencies and/or nonprofits that pertains to your area of interest. The degree of reliability, validity, and precision secondary data depends on how it was collected and interpreted. Census data is one example of secondary data.
- ❖ Any information collected from intermediate sources. Industry figures, databases library sources, and so forth are example of secondary data. In this report I used
- ❖ Operational manual
- ❖ Official Website
- ❖ Banking journals
- ❖ BBL newsletters
- ❖ Research papers

Limitations of the report:

This report is not free from limitations. Moreover, the topic is so much vast. I have faced some problems while preparing this report. The limitations acquainted with this report are as the problems:

- Time limitation my internship program was about 3 month. This is fairly enough if I only concentrate on the report only but the thing is during this time I was busy to continue daily official activities. That's why there was a time constraint to finish it within the specified timeframe.
- Lack of information As the company operates globally lot of policies are made by the higher authority of foreign countries and as an intern I was not allowed to get all the information. So it was one of the problems I faced while preparing the report.
- Lack of communication-Since I had to spend all the working days in office each and every week so, I did not have any scope to communicate with my supervisor to be informed about what aspects I need to include in my report.

Chapter 1

Theoretical aspects of SME Banking

1.1 Define SME:

An SME is defined as, —A firm managed in a personalized way by its owners or partners, which has only a small share of its market and is not sufficiently large to have access to the stock exchange for raising capital. SMEs ordinarily have few accesses to formal channels of finance and depend primarily upon savings of their owners, their families & friends. Consequently, most SMEs are sole proprietorships & partnerships. SMEs have been defined against various criteria. The three parameters that are generally applied by the Governments to define SMEs are: Capital investment in plant and machinery, Number of workers employed, Volume of production or turnover of business.

1.1.1 Definition of SME as per Bangladesh Bank:

Bangladesh Bank provides some rules and criteria that should maintain the entire bank. Organizations not a public limited company meet the following criteria:

Enterprise	Criteria	Trading/Services	Manufacturing
Small Enterprise	No of stuff (Not more then)	10-25	25-99
	Fixed asset (Except land and building)	BDT 5 Lac – BDT 10 Crore	BDT 50 Lac – BDT 10 Crore
Medium Enterprise	No of stuff (Not more then)	50-100	100-250
	Fixed asset (Except land and building)	BDT 1 Crore – BDT 15Crore	BDT 10 Crore – BDT 30Crore

Table# 1: Criteria of SME as per Bangladesh Bank

1.2 SME financing in Bangladesh:

Most of the Commercial Banks and Financial Institutions have incorporated SME banking. The incorporation is done by only re-designing and scaling down their current financial products for the SME customer. This does not create expected value addition to SME financing, since it is regular financing under a Different name. SMEs provide low cost employment Opportunities and render flexibility to the economy. Many of the SMEs are engaged in export activities suggesting that they are internationally competitive. Considering the importance of SME sector in the economy of Bangladesh and understanding the constraints under which such enterprises operate, it is evident that policies to support the development and growth of SMEs are necessary.

1.3 Reasons of SME Banking:

The main focus of BRAC Bank is to develop human and economic position of the country. Its function is not limited only to providing and recovering of loan. But also try to develop economy of a country. So reasons for this program from the viewpoint of BRAC Bank Ltd. are:

1.3.1 Support Small and Medium Enterprise:

To support small and medium enterprise, which requires not more than BDT 30 lacs but in the market, small and medium entrepreneurs do not have easy access to get loans from the commercial banks/ financial institutions. But BRAC Bank Ltd. Provides loans ranges between BDT 3 to 8 lacs without any kind of mortgage.

1.3.2 Economic Development:

Economic development of a country largely depends on the small and medium sized enterprises. Such as, if we analyze the development history of Japan, the development of small & medium size enterprises expedite the development of that country.

1.3.3 Employment Generation:

To create employment opportunities in the market. The bank gearing employment opportunities by two ways: Firstly, by providing loan to the small enterprises. Expanding, these businesses require more workers. Secondly, small and medium enterprise (SME) program requires educated and energetic people to provide support to Entrepreneurs.

1.3.4 Profit Making:

SME program is a new dimensional banking system in the banking World. Most of the CROs are providing door-to-door services to the entrepreneurs. Entrepreneurs are satisfied by the service of the bank and making profit with guidance of the bank.

1.3.5 Encourage Manufacturing

The focus of BRAC Bank Ltd. is to encourage manufacturing by the entrepreneurs who produce by purchasing various types of materials. CRO's try to educate them to produce material if possible because if they can produce in line of purchase profits will be high.

1.3.6 Spread the Experience

Another reason of BRAC Bank Ltd. is to spread the knowledge on the importance of SME banking regarding various businesses. The customer service officer shares their knowledge from various businesses and tries to help the entrepreneurs who have shortage of the gathered knowledge.

Chapter-2

SME Banking: BRAC Bank

2.1 Journey begins from “MISSING MIDDLE”:

BRAC Bank is now 12 years old and pioneered the small and medium enterprise (SME) Banking. If we think of the financial pyramid, there are corporate institutions (local and Multinational) at the top of the pyramid and there are low income individuals at the bottom. Those at the top are served by banks and other financial institutions while those at the bottom are served by Micro Finance Institutions (MFIs), e.g. NGOs. But SME sector in the middle were missing access to necessary banking services and that's where BRAC Bank has filled the gap. So, BRAC bank Launched SME loan for lower and middle classes business from the Concept of missing middle.

2.2 Selection Criteria for SME loan:

2.2.1 Enterprise Selection Criteria

The success of SME will largely depend on the selection of a business and man behind it. In terms of the business (Enterprise), the following attributes should be sought:

1. The business must be in operation for at least one year
2. The business should be environment friendly, no narcotics or tobacco business
3. The business should be legally registered, i.e., valid trade license, income tax or VAT registration, wherever applicable.
4. The business should be in legal trade, i.e.; smuggling will not be allowed or socially unacceptable business will not be entertained.
5. The business must have a defined market with a clear potential growth
6. The business must be located ideally close to the market and the source of its raw materials/suppliers. It should have access to all the utilities, skilled manpower's that are required.
7. Any risk assessed by the management in turn will become a credit risk for the bank. So effort should make to understand the risk faced by the business.

2.2.2 Entrepreneur Selection Criteria

In order to understand the capability of the management behind the business, the following should be assessed:

1. The entrepreneur should be physically able and in good health, preferably between the age of 25-50. If he/she is an elderly person closer to 50, it should be seen what the succession process will be and whether it is clearly defined or not.
2. The entrepreneur must have the necessary technical skill to run the business, i.e academic background or vocational training, relevant work experience in another institution or years of experience in this line of business.
3. The entrepreneur must have an acceptable social standing in the community (People should speak highly of him), he should possess a high level of integrity (Does not cheat anyone, generally helps people), and morally sound (Participates in community building)
4. The entrepreneur must possess a high level of enthusiasm and should demonstrate that he is in control of his business (Confidently replies to all queries) and has the ability to take up new and fresh challenges to take the business forward.
5. Suppliers or creditors should corroborate that he pays on time and is general in nature
6. Clear-cut indication of source of income and reasonable ability to save.

2.2.3 Guarantor Selection Criteria

Equally important is the selection of a guarantor. The same attribute applicable for an entrepreneur is applicable to a guarantor. In addition he should possess the followings:

1. The guarantor must have the ability to repay the entire loan and is economically solvent (Check his net worth)
2. The guarantor should be aware about all the aspect of SEDF loan and his responsibility

3. Govt. and semi-govt. officials can be selected as a Guarantor such as schoolteacher, college teacher, doctor etc.
4. Police, BDR and Army persons, political leaders and workers, and Imam of mosque cannot be selected as a guarantor.

The guarantor should know the entrepreneur reasonable well and should preferably live in the same community

2.3 SME Banking System:

- Every SME unit office will have a current account with a designate bank in the area of a unit office. This bank account will be opened and operated by SME head office.
- To meet petty expense such as stationery, entertainment and other incidental expense, all unit office will be allowed petty cash of Tk 2000/=
- The cheque of this petty cash will be issued from SME head office in the beginning of the month. All vouchers relating to such expenses should be send to the accounts from SME head office
- All the clients must open their account with the same bank account on the same day after receiving those from the borrowers, who should given a received as prescribed.
- Cheque's should be deposited to the SME unit office bank account on the same day after receiving those from the borrowers, who should given a receipt as prescribed.
- Any loan installment credit should be transferred to the SME head office account in Gulshan, Dhaka on the same day as per agreement with bank.
- Every CRO should have an individual account in the same bank branch for their personal use and to receive their salaries and other benefits.
- Payment of lease rentals, utility bills and cheque drawn on the SME unit office bank account and issued by SME head office should pay other expenses (Large amount). If these bills are small amount, they should be paid from the petty cash and replenished later.

All the financial accounting entries will be passed at the SME head office and will maintain separately on the basis of the unit office.

2.4 Terms and Conditions of SME Loan:

The SME department of BRAC Bank will provide small loans to potential borrower under the following terms and condition:

- The potential borrowers and enterprises have to fulfill the selection criteria.
- The loan amount is between Tk. 2 lacs to 50 lacs.
- SME will impose loan processing fees for evaluation / processing a loan proposal as following:

Loan Amount	Loan Processing Fee
2 lacs to 2.99 lacs	BDT 5,000
3 lacs to 5 lacs	BDT 7,500
5.01 lacs to 15 lacs	BDT 10,000
15.01 lacs to 50 lacs	BDT 15,000

Table# 2: Loan amount and processing fee

2.4.1 Loan can be repaid in two ways:

- 1.** In equal monthly loan installment with monthly interest payment
- 2.** By one single payment at maturity, with interest repayable a quarter ends residual

On maturity

- ✓ Loan may have various validates, such as, 3 months, 4 months, 6 months, 9 months, 12 months, 15 months, 18 months, 24 months, 30 months and 36 months.
- ✓ The borrower must open a bank account with the same bank and branch where the SME has its account.

- ✓ Loan that approved will be disbursed to the client through that account by account payee cheque in the following manner: Borrower name, Account name, Banks name and Branch's name.
- ✓ The loan will be realized by 1st every months, starting from the very next months whatever the date of disbursement, through account payee cheque in favor of BRAC Bank Limited A/C. With Bank's named and branches name
- ✓ The borrower has to issue an account payable blank cheque in favor of BRAC Bank Limited before any loan disbursement along with all other security.
- ✓ The borrower will install a signboard in a visible place of business of manufacturing unit mentioned that financed by —BRAC Bank Limited
- ✓ The borrower has to give necessary and adequate collateral and other securities as per bank's requirement and procedures
- ✓ SME, BRAC Bank may provide 100% of the Net Required Working Capital but not exceeding 75% of the aggregate value of the Inventory and Account Receivables. Such loan may be given for periods not exceeding 18 months. Loan could also be considered for shorter periods including one time principal repayment facility, as stated in loan product sheet
- ✓ In case of fixed asset Financing 50% of the acquisition cost of the fixed asset may be considered. While evaluating loans against fixed asset, adequate grace period may be considered depending on the cash generation after the installation of the fixed assets. Maximum period to be considered including grace period may be for 36 months.

2.5 Target Segments for SME Financing:

S.L.	Sector
1	Agriculture and Agricultural Development items
2	Fishing and fishing business promotion
3	Hospitals and Clinics
4	IT related business
5	Transportation and Communication
6	Forestry and furniture

7	Construction business and housing development
8	Leather marketing and leather goods
9	Knitwear and readymade garments
10	Plastic and other synthetics
11	Entertainment
12	Photography
13	Hotel and tourism
14	Warehouse and container services
15	Printing and packaging
16	Gunning and Bailing
17	Pathological Laboratories
18	Cold Storage
19	Horticulture Flower growing and Marketing
20	Food and oil processing plants
21	Higher education and expertise knowledge society
22	Telecommunication

Table# 3: Target Segments for SME Financing

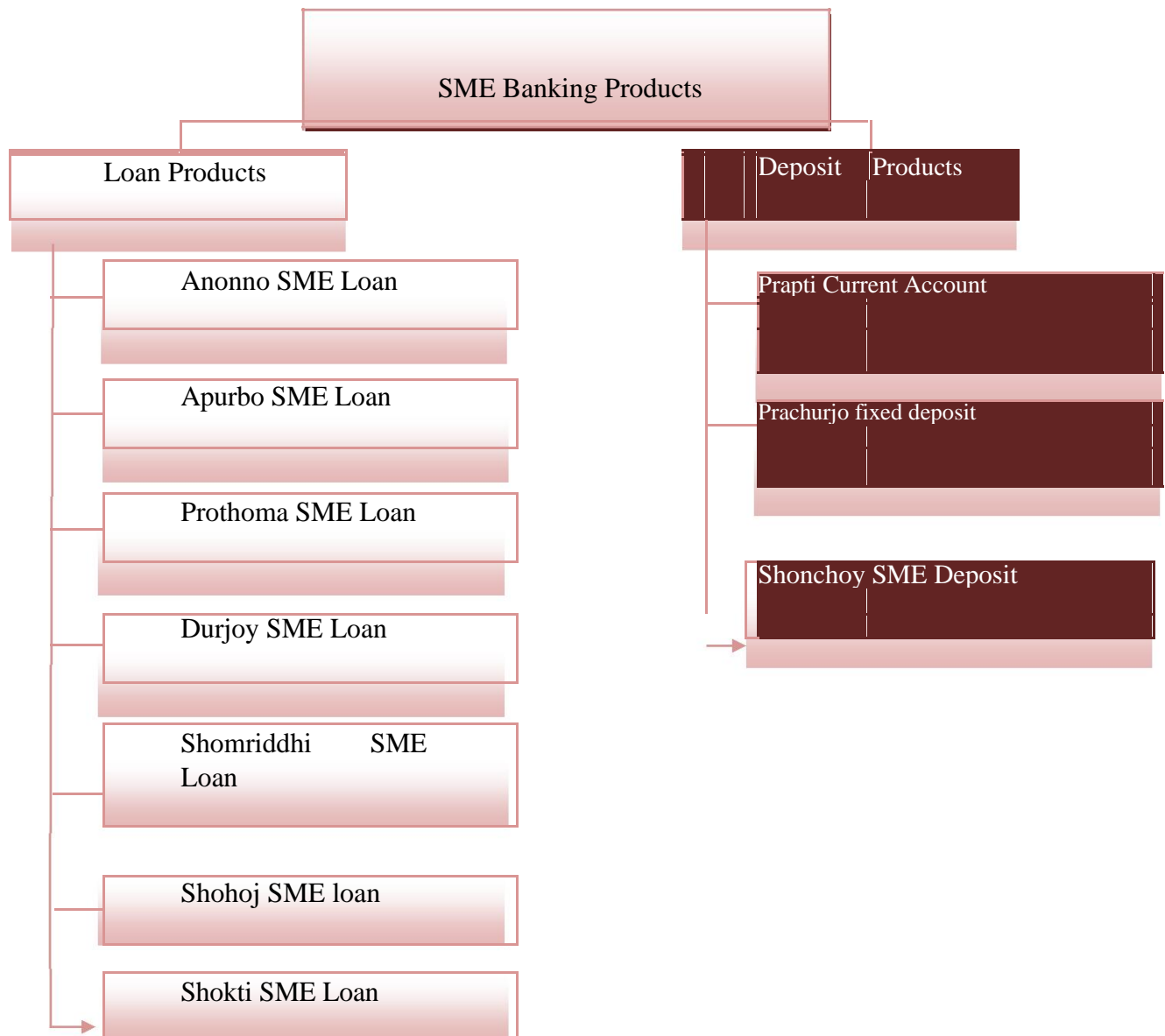
2.6 Highlights of SME Banking Division:

BRAC Bank, being the youngest bank, took a step to break away from usual tradition and tapped into the true suburb entrepreneurial initiatives. With over 4,71,618 loans disbursed till 2014, BRAC Bank is country's largest SME financier that has made more than 410,817 dreams come true! The performance for SME banking

Number of SME Offices	: 624
Number of Staff	: 2,104
No. of Loan disbursed	: 4, 71,618
Disbursement (in million BDT)	: 2, 91,871
No. of Outstanding Account	: 120,685
Amount of Deposit (in million BDT)	: 26,745

2.7 Products of SME Banking:

BRAC Bank is offering the following SME loan product and deposit products to the client for financing different purpose that fulfill the requirements of the bank and have good return to the investment as well as satisfy the client. The products of SME banking are:



Figure# 1: SME Banking products of BRAC Bank

2.8 SME deposits Products:

BRAC bank has several deposit product with different features and procedures. These are below:

2.8.1 Prapti Current Account

Prapti Current Account has been designed to encourage small and medium entrepreneurs to enter into the wide range of modern banking facilities of BRAC Bank Limited. Prapticurrent account is an interest bearing current account for SMEs. This account ensures the profitable and easy transaction facilities for business concerns.

Eligibility:

Any kind of organization (such as sole proprietorship, partnership, private limited company, Educational institution, NGO/Project, Co-operative society and so forth)

Specialty of PRAPTI Current account

- ✓ Prapti has been designed to fulfill business transactional requirements
- ✓ It is a current account in which interest is paid on daily balance
- ✓ Opening balance for Prapti Account is BDT 2000 for welcome package with
- ✓ 0% interest rate
- ✓ No outstation cheque fees
- ✓ Prapti account has designed for unlimited transaction, no restriction.

Rate of Interest

The following is the rate of interest applicable daily on your balance.

Amount of Balance	Specific Interest Rate
0 - Below 5,000	0%
5,000 - Below 100,000	1%
100,000 - Below 250,000	2%
250,000 –Below 500,000	3%
500,000 & Above	3%

Table# 4: Rate of interest of prapti current account

2.8.2 Prachurjo fixed deposit:

"Prachurjo" is a lucrative fixed deposit for small and medium businesses. With a minimum 50,000 TK, any business enterprise having valid trade license can open this account.

Specialties

- ✓ Tenure: Minimum 1 month and maximum 36 months
- ✓ No fees except govt. excise / duty on interest earned
- ✓ Interest is applicable on maturity
- ✓ No pre-encashment fees

Eligibility

- ✓ Everyone involving in sole proprietorship, partnership and private limited
- ✓ companies
- ✓ Small and medium typed businesses (Educational institution, NGO and Cooperative society and others).

2.8.3 Shonchoy SME Deposit:

BRAC Bank introduces —Shonchoy – Monthly Deposit Scheme for all its SME clients.

Shonchoy is a monthly deposit plan for entrepreneur in the case of emergency and business contingencies. Shonchoy is basically a monthly installment based loan and a habit to pay

Monthly to the bank. Banks are reducing installment size by reducing interest rate, increasing tenor, and/or by removing uncompetitive features. It's allow organization to save on a monthly basis as per your organization's requirement and get a handsome return at maturity. Contribution options for both monthly installment size and maturity, starting from as low as BDT 500 to any multiple of it as per your organization's need i.e. BDT 1,000, BDT 2,500, BDT 5,000 and so on.

Specialties

- ✓ Minimum monthly installment of BDT 500
- ✓ Tenor from 1 year to 10 years
- ✓ 95% Secured Over Draft facility on the deposited amount
- ✓ No account maintenance fee

Eligibility

- ✓ All sole proprietorship businesses
- ✓ Partnership businesses & limited companies
- ✓ Educational institutions
- ✓ Local NGOs/projects
- ✓ Local co-operative society
- ✓ Market/shop owner association
- ✓ Other organizations not mentioned above

Chapter-3

BRAC Bank: SME loan product and procedure

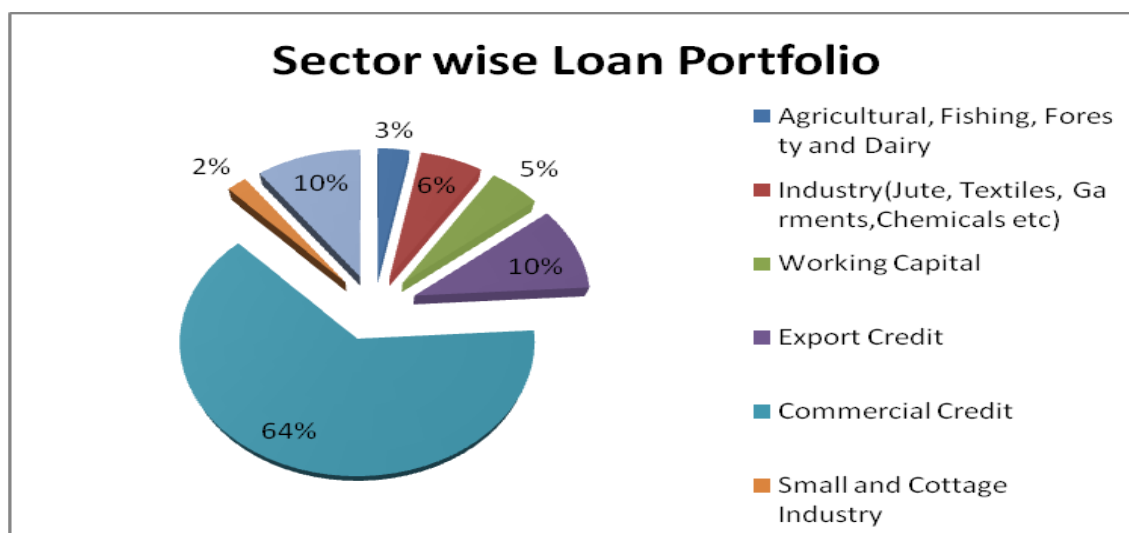
3.1 Total Loans and Advances:

Loans and advances increased by BDT 20,216 million or 62% to BDT 52,677 million at 31st December 2014. This is a result of continued growth in lending business and solid growth in banking industry reflecting a continued focus on customers and profitable growth. Below table shown the 5 years total loans and advances in BBL.

Loans and Advances(Taka in Millions)	
Year	Amount
2010	5820
2011	11791
2012	19557
2013	32461
2014	52677

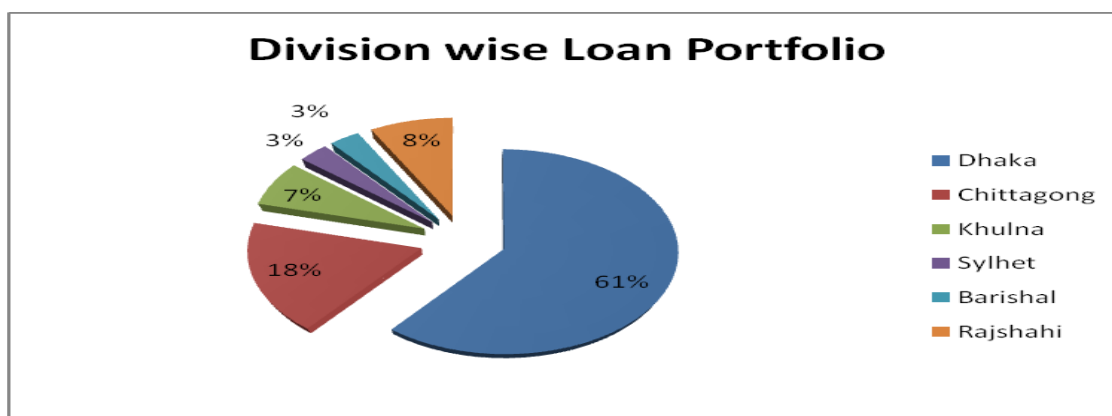
Table 5: Total Loan and Advance (Taka in millions)

SME sector, the main concentrated area for the bank financing since its inception, comprises of 63% of the total loans and advances. Major portfolio of BRAC Bank belongs to commercial sector. Sector-wise credit portfolio is shown in the figure below:



Graph

1: Sector wise loan portfolio.

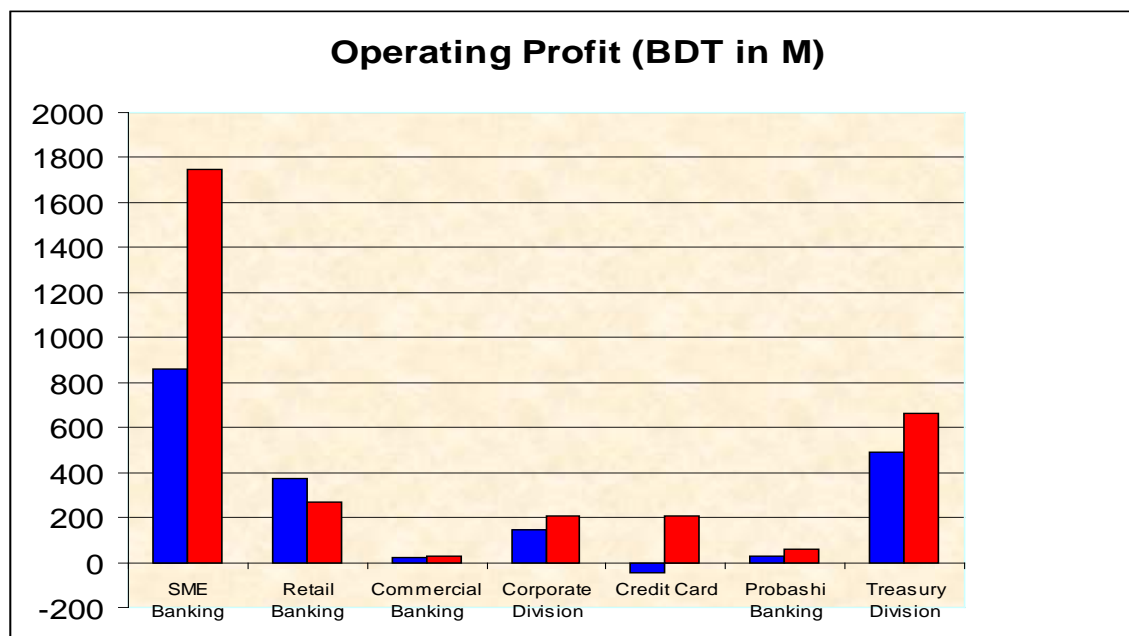


Graph 2: Division wise portfolio.

Credit concentration is shown in the above pie-chart to elaborate the area of concentration of loans and advances. About 39% of total loan portfolio concentrated outside Dhaka.

3.2 Operating Profit from SME:

BRAC Bank's operating profit increases in every year at a double digit growth. In 2013 it was near 800 million but in 2014 it increases 63%, near to 1800 million. Operating Profile is bellow



Graph 3: Operating Profit (BDT in Millions.

3.3 SME loan product:

BRAC Bank providing different type SLE loan products for the people those have really need the money to extend the business. The bank starts SME loan on different sectors. These are given below:

3.3.1 Anonno:



Anonno is a loan facility for small enterprises involved in trading, manufacturing, service, agriculture, non-firm rural activities, agro-based industries and many other acceptable sectors spread all over Bangladesh marketed through BRAC Bank's SME unit offices or branches/SME branches/ Krishi branches across the country.

Eligibility:

- ✓ Entrepreneurs aged between 21 to 60 years
- ✓ Entrepreneurs with minimum 2 years' experience in the same line of business
- ✓ A business which must be a going-concern with more than 2 year in operation

Minimum amount:

From minimum BDT 2lac up to maximum of BDT 10lac for 12, 18, 24, 30 & 36months and minimum BDT 6lac up to maximum of BDT 10lac for 48 months

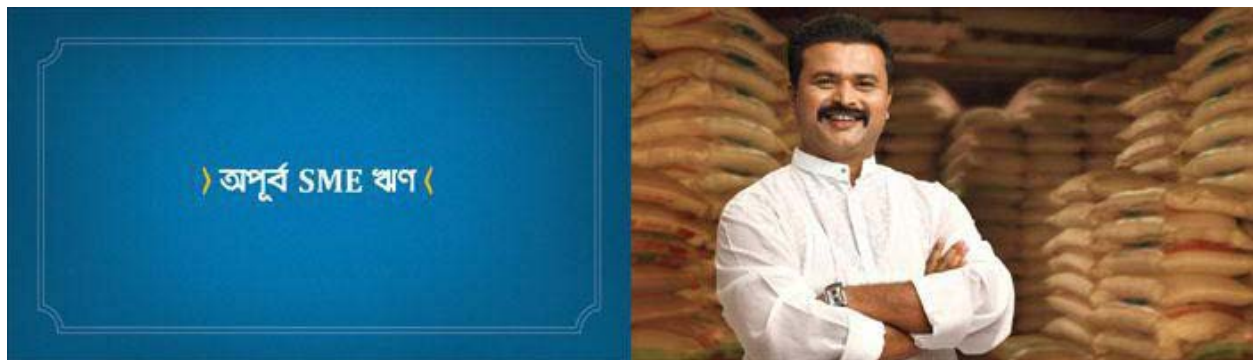
Features:

- ✓ Loan without mortgage
- ✓ For excellent borrowers who have paid or paying in due times, we offer discounted rates
- ✓ Quick, quality banking throughout the country
- ✓ Potential women entrepreneurs will also get the facilities of this loan

Interest Rate: 23.50% for New Loan; 23.50% for 1st time repeat (if applicable); 23.50% for 2nd time repeat & so on (if applicable).

Processing fees: 1.5% on loan amount + VAT

3.3.2 Apurbo



In order to help our SME borrowers for financing working capital or to purchase fixed assets, BRAC Bank Limited offers APURBO. It caters to the need of entrepreneurs who are operating in trading, manufacturing, service, agriculture, non-farm activities, agro- based industries and other sectors of our economy.

Eligibility:

- ✓ Entrepreneurs having a minimum of 2 years of some business activities
- ✓ A business which must be a going concern for 2 years
- ✓ Age minimum 21 years and maximum up to 60 years

Minimum amount:

Starting from BDT 10lac to maximum of BDT 100lac

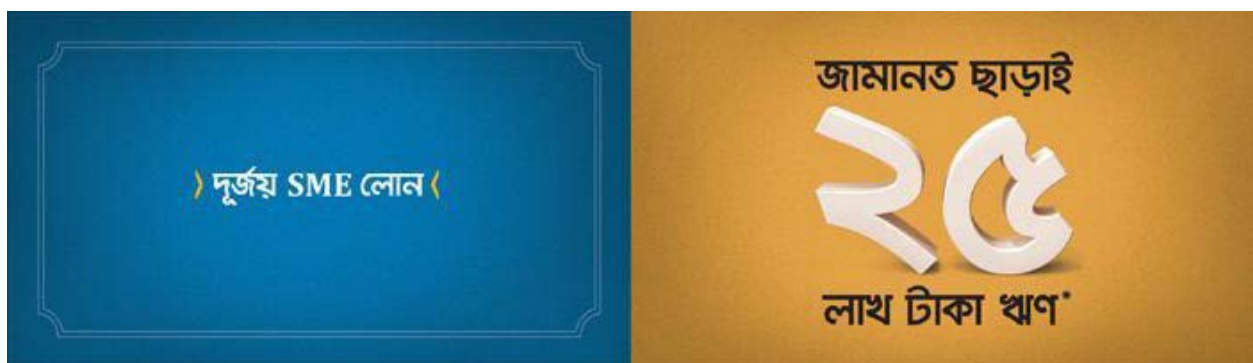
Features:

- ✓ Simple loan processing for expanding your business
- ✓ Quick disbursement
- ✓ Disbursement in one or two installment
- ✓ Flexible monthly repayment loan

Interest Rate: OD 18%; Term Loan: 18%; Takeover Loan (will be processed as per existing practice).

Processing fees: 1% of loan amount + VAT

3.3.3 Durjoy



An unsecured loan facility for small and medium sized trading, manufacturing, service, agriculture, non-firm rural activities, agro-based industries.

Eligibility:

- ✓ Entrepreneurs having a minimum of 2 years of some business activities
- ✓ A business which must be a going concern for 2 years
- ✓ Age minimum 21 years and maximum up to 60 years

Minimum amount:

Starting from BDT 3lac to maximum of BDT 25lac

Features:

- ✓ The loan facilities will be term loan for regular businesses that are not
- ✓ subject to significant volatility in sales due to seasonality
- ✓ Loan tenor is 12 months to 60 months with an interval at 6 months
- ✓ Equal monthly installment facility and overdraft facility

Interest rate: 18%

Processing fees: 2% on loan amount + VAT

3.3.4 Prothoma

Prothoma is a loan facility for the business that must be owned by women entrepreneur in case of proprietorship. For partnership/ limited companies, if women hold 51% or more share, it will be considered as women run business.

Eligibility:

- ✓ Entrepreneurs having a minimum of 2 years of some business activities in the same line of business
- ✓ A business which must be a going concern for 2 years
- ✓ Age of proprietor/ partner/ guarantor minimum 21 years and maximum up to 60 years

Minimum amount:

- ✓ Starting from BDT 2lac to maximum of BDT 10lac (12, 18, 24 30 & 36 months)
- ✓ Starting from BDT 6lac to maximum of BDT 10lac (48 months)

Features:

- ✓ Equated monthly installment loan facility
- ✓ Single installment loan facility
- ✓ Loan tenor for equated monthly installment: 12 months, 18 months, 24 months, 30 months, 36 months, 48 months
- ✓ Loan tenor for single installment is 3 months to 9 months

Interest rate: 10%

Processing fees: 2% on loan amount + VAT

3.3.5 Shamolima

A loan facility for Sharecropper/ Small farmers/ vegetables growers/ fruits growers/ dairy Firms/ poultry/ fishery/ shrimp hatchery or fish processing unit in order to manage working Capital/ purchase livestock or birds or fish big/ light machinery or establishment/ tractor or Commercial vehicles.

Eligibility:

- ✓ Entrepreneurs having a minimum of 1 years of some business activities in the sameline of business
- ✓ A business which must be a going concern for 1 years
- ✓ Age of proprietor/ partner/ guarantor minimum 21 years and maximum up to 60 years

Minimum amount:

Starting from BDT 50 thousand to maximum of BDT 10lac

Features:

- ✓ Loan tenor for term loan is 3 months to 2 years
- ✓ Loan tenor for bullet payment is 3 months to 1 year
- ✓ No processing fee is needed

- ✓ Repeat/additional loan can be offered only after 12 months of taking a loan.

Interest rate: 13%

Processing fees: 1% on loan amount + VAT

3.3.6 Shomriddhi



To meet import-export related expenses, post import expenses, tax/duty payment, local bill purchase and working capital, SHOMRIDDHI loan is offering BDT 1 Lac to BDT 20 million. LC and LATR facility Revolving loan, overdraft Local bill discounting facility

Letter of Credit (LC)/Loan against trust receipt (LATR)

LC opening facility: from BDT 1 Lac to BDT 20 million Up to 90% loan against LC.

Revolving Loan:

- ✓ Import duty payment or goods purchase facility
- ✓ Loan up to BDT 20 million

Local Bill Purchase:

Loan up to BDT 20 million in export

Specialty:

- ✓ Easy loan processing
- ✓ Convenient interest rate
- ✓ Loan payment facility up to 180 days.

Eligibility:

- ✓ Any kinds of businesses having valid trade license and which has been operating for at least 3years.
- ✓ Sole proprietorship, Partnership or Private Limited Company.

Interest rate: 18%

Processing fees: 1% on loan amount + VAT

3.3.7 Shohoj

A term loan and overdraft facility for all types of business against FDR of BRAC Bank Ltd.

Eligibility:

- ✓ Entrepreneurs don't need to have any previous business experiences in the same line of business.
- ✓ A totally new established business can get the loan facilities.
- ✓ The proprietor/ partner must be Bangladeshi by nationality.

Minimum amount:

Minimum amount is 2lac but there is no limit for maximum amount

Features:

- ✓ Meet the emergency cash needs of business
- ✓ Tenor for overdraft facility renewal after 12 months
- ✓ No processing fee for BRAC Bank Limited
- ✓ No rescheduling fee

Interest rate: FDR rate +3%

Processing fees: 1% on loan limits + VAT

3.3.8 Shokti



All types of business that has healthy bank transactions.

Eligibility:

- ✓ Entrepreneurs having a minimum of 3 years of some business activities in the same line of business
- ✓ A business which must be a going concern for 3 years

Minimum amount:

Starting from BDT 10lac to maximum of BDT 75lac

Feature:

- ✓ Equated monthly installment loan facility
- ✓ Processing fee is 1% of loan amount plus VAT
- ✓ Loan tenor for 10 lac to below 20 lac is 12 to 48 months
- ✓ Loan tenor For 20 lac to 1 Crore is 12 to 60 months

Interest rate: 21.50%

Processing fees: 1.5% on loan amount + VAT

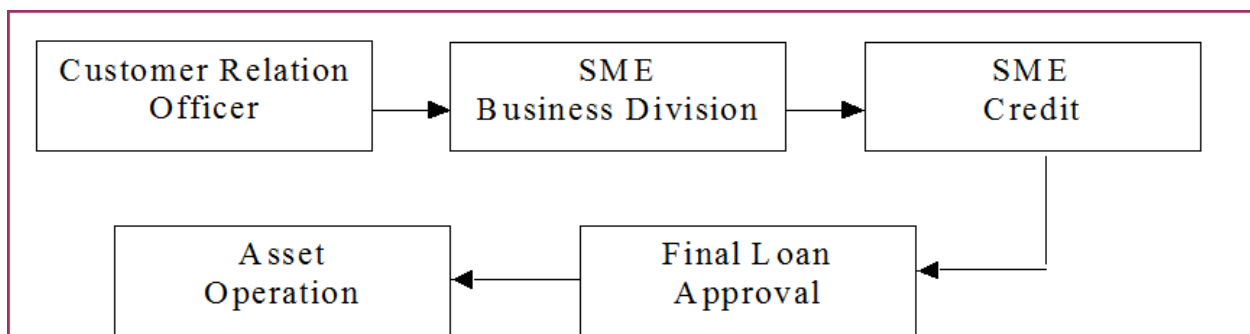
3.4 Procedure of SME loan:

BRAC Bank maintains easy procedure for loan sanctioning and in the period of disbursement.

3.4.1 SME Loan Process Flow

When a customer comes to the unit office for a loan request, first he/she meets with the customer relationship officer to discuss about the loan, which loan product is suitable for him/her.

After then the following process takes place:



Fig

ure#2: Rate of interest of prapti current account

3.4.2 Loan Sanction activities

Select potential enterprise: For SME loan, in this step the CRO conduct a survey and identify potential enterprise. Then they communicate with entrepreneurs and discuss the SME program.

Loan Presentation: The function of CRO is to prepare loan presentation based on the information collected and provided by the entrepreneur about their business, land property (Where mortgage is necessary)

Collect confidential information: Another important function of a CRO is to collect confidential information about the client from various sources. The sources of information are suppliers regarding the client's payment, customers regarding the delivery of goods of

services according to order, various banks where the client has account, which shows the banks transactions nature of the client.

Open clients accounts in the respective bank: When the CRO decided to provide loan to the client then he/she help the client to open an bank account where BRAC bank has a STD a/c. BRAC bank will disburse the loan through this account. On the other hand the client will repay by this account. Although there is some exception occur by the special permission of the authority to repay by a different bank account.

Fill up CIB form: CRO give a CIB (Credit Information Burue) form to the client and the client fill and sign in it. In some case if the client is illiterate then the CRO fill the form on behalf of the client. Then CRO send the filled and signed form to the SME, head office.

Sending CIB to Bangladesh Bank: The SME, head office collects all information and sends the CIB form to Bangladesh Bank for clearance. Bangladesh Bank return this CIB form within 10-12 days with reference no.

CIB report from Bangladesh Bank: In the CIB report Bangladesh Bank use any of the following reference no:

- **NIL:** if the client has no loan facility in any bank or any financial institution then BB (Bangladesh Bank) use 'NIL' in the report
- **UC (Unclassified):** if the client has any loan facility in any bank or financial institution and if the installment due 0 to 5.99 then BB use UC in the report
- **SS (Substandard):** if the client has any loan facility in any bank or financial institution and if the installment due 6 to 11.99 then BB use SS in the report
- **DF (Doubtful):** if the client has any loan facility in any bank or financial institution and if the installment due 12 to 17.99 then BB use DF in the report
- **BL (Bad lose):** if the client has any loan facility in any bank or financial institution and if the installment due 18 or above then BB uses BL in the report.

This report indicates that the client is defaulter and the bank should not provide loan the client.

- **Loan decision considering CIB report:** Considering CIB report, BRAC bank decide whether it will provide loan the client or not. If the bank decides to provide loan then the SME of head office keep all information and send all papers to the respective unit office to apply with all necessary charge documents.

3.4.3 SME Loan Sanction

The respective unit office sanctions loan to the client if it is 2 to 5 lacs, and then sends the sanction letter including all necessary charge documents to the loan administration division for disbursing the loan. If the amount is higher than 5 lacs then the respective unit office sends the proposal to SME, head office for sanction. The head of SME sanctions the loan and sends the sanction letter including all documents to the loan administration division for disbursement and inform the respective unit office regarding sanction of the loan.

3.4.4 Disbursement of SME loan

For SME loan operation, BRAC Bank Limited Ltd has in total 400 unit offices all throughout the country. The department is divided into three regions. Each region comprises of 6 to 7 territories. Territories are divided into zones and zones are further divided into unit offices. Currently there are 20 territories and 142 zones. The frontline employees of small business are called Customer Relationship Officer (CRO). More than 1,500 CRO's are working in the department. These CROs work for the Bank to converge clients for getting the SME loan.

3.4.5 Pre Disbursement Manual Activities

Prepare loan file: Receiving all documents, Loan Administration Division prepare a loan file with all documents received from the unit office.

Charge documents checking: The loan administration division checks all charge documents.

Following charge documents are checked:

- Money receipt (Risk fund).
- Sanction letter.
- Demand promising note (With stamp of Tk 20/=)
- Letter of arrangement (With stamp of Tk 150/=)
- General loan agreement (With stamp of Tk 150/=)
- Letter of undertaken (With stamp of Tk 150/=)
- Letter of stocks and goods (With stamp of Tk 150/=)
- Letter of hypothecation book debt and receivable (With stamp of Tk 150/=)
- Letter of disbursement
- Photocopy of trade license (attested by CRO)
- Insurance (Original copy)
- Blank claue with signature (one cheque for full amount and others same as no of installment on Favor of BRAC bank, no date, no amount)
- Two guarantors (one must be Spouse/parents)
- If the loan provide for purchase of fixed assets or machineries and if the loan amount is over Tk 50,000/= then the stamp of a certain amount is require)

Documents deficiency and problem resolving: If there is any error found then it informed to the respective CRO. If the application form is not filled properly then the file send to the CRO to fill the application properly. If any document error found then the loan administration division asked the CRO to send the require documents and the file stored to the loan administration division.

Prepare disbursement list: The loan administration division lists all new sanctioned clients' details and send a request to the treasury through internal mail.

Disbursement of the amount: Sending the list to the treasury of BRAC bank for disburse the amount, the treasury disburse the amount to the client through the mother account of the

clients bank. BRAC bank disburse amount through any of the following banks corporate branch nearer the BRAC bank head office and the corporate branch of the respective bank send the amount to the client account in the respective branch. These banks are:

- BRAC Bank Limited
- The City Bank Limited
- Janata Bank
- Bangladesh Krishi Bank
- Pubali Bank
- Agrani Bank

Message sent to the unit office: Completing the disbursement, loan administration division sent a SMS to the respective CRO informing the disbursement of the sectioned loan.

3.4.6 MBS entries for loan disbursement

Initial ID generation: After sending the list to the treasury, the loan administration division generates an initial ID against the borrower. Entering required information, the banking software MBS automatically provide a ID no for the borrower.

Loan account opening: According to the ID, the loan administration division opens a loan account in MBS against the borrower. Entering all required information, the MBS automatically give an account no. For the borrower.

Cost center assign: The loan administration division enter the following information in MBS:

- Security details set-up
- Guarantor details set-up
- Loan other details set-up

Risk fund collection: The loan administration division opens a different account risk fund of the client. This is known as loan processing fees. Receiving the risk fund, the loan

administration division prints voucher and posting the voucher in the MBS. The amount of risk fund is not refundable.

Activision of the loan: Loan administration divisions do the following tasks to activate the loan

- Loan sanction details set-up
- Repayment schedule set-up and printing
- Loan activation
- Disbursement and CC wise voucher print
- Disbursement voucher posting

3.4.7 Post Disbursement Manual Activities

Repayment schedule sent to unit office: Completing the disbursement of the sanctioned amount the loan administration division prepare a repayment schedule in MBS and send it to the unit office. CRO from the unit office collect it and reached to the respective client. The client repays the loan according to this schedule.

- **Loan details MBS entry:** The loan administration division enters details information regarding the loan in MBS. Each officer has an ID no in MBS and if there is any error found then the respective officer would be responsible for it. So everybody remain alert at the time of MBS entry.
- **Document stamp cancellation:** The loan administration division cancels all document stamps. In future if any client found defaulter and the bank file sued against him then stamps of these document help to get the judgment favor of the bank. But if these stamps are not canceled then the judgment may not on favor the bank.

- **Send the loan file to archive:** completing all activities, loan administration division sends the loan file to the archive for future requirement. In future if any document of the loan account requires then the bank can collect the file from archive and get the necessary document. If the clients take repeat loan then it is not require applying all documents because his all documents stored to the bank.

3.5 SME Loan Recovery Procedures:

The repayment process starts immediately after one month of the loan taken. Suppose if a loan is taken in July 7, 2007 then the repayment process will be started from August 7, 2007 and the borrower will pay his/her first installment in that date. Before that date, the borrowers will be informed about the number of installments and amount of each installment. He can deposit the installment by himself or by the Customer relationship officer (CRO). Again they can deposit the installments either in any branch of BRAC Bank or in any correspondence bank (where BRAC Bank has no branch). If the borrower cannot pay the installment in the stipulated date, interest will be charged for each day before they pay that installment. Again interest will be reduced if the borrower pays the installment before the date of repayment. Interest will be charged and added to the principal amount for every month or every 3 three months depending on the policy for each loan disbursement.

However, after the borrower repays the loan installments there are number of steps done in the repayment procedure of SME loan. These steps are:

3.5.1 Receive SMS/Fax for installment deposits

When the borrower repays any installment of the loan then he/she informs it to the unit office/CRO. Then the unit office/CRO sends an SMS through mobile phone or a Fax to the loan administration division informing the repayment. A loan administration division collects these SMS /Fax and takes a paper print of these SMS.

3.5.2 Entry the installment information to MBS

Loan administration division enters the repayment installment information to the banking software MBS.

3.5.3 Print Vouchers

Completing the entry, the loan administration division takes paper print of all vouchers in a prescribed yellow paper.

3.5.4 Check SMS/Fax and solve problems (If any)

The loan administration is responsible for all entry in MBS. If there is any error found in future then the respective officer who is entering this information in MBS will be liable for it. User ID will easily identify it. So they are always aware of to ensure the correct entry. Completing the entry of information, they print a hard copy and check it with the SMS/Fax. If there is any error found then it is solved and ensures the correct information entry.

3.5.5 Repayment voucher check and posting

If it confirmed that all entering information is correct and there is no error, then the responsible officer of the loan administration division posts it to MBS. If one time posted, it is not rectifiable without permission of the higher authority. So the loan administration is always aware of regarding the recovery procedures of SME loan.

3.6 Monitoring:

Monitoring is a system by which a bank can keep track of its clients and their operations. So monitoring is an essential task for a CRO to know the borrowers activities after the loan disbursement. This also facilitates the buildup of an information base for future reference. The purpose is to know the entire business condition and all aspects of the borrowers so that misfortune can be avoided.

3.6.1 Importance of Monitoring

Through monitoring a CRO can see whether the enterprise invested the sanctioned amount in the pre-specified area of his business, how well the business is running, the attitude of the entrepreneur, cash credit sales and purchase, inventory position, work in process and finished goods etc. This information will help the Bank to recover the loan accruing to the schedule and to take the necessary decisions for repeat loans. Moreover, monitoring will also help to reduce delinquency. Constant visit over the client /borrower ensures fidelity between the bank and the borrower and tends to foster a rapport between them.

3.7 Closing procedures of SME loan:

3.7.1 Pre-closing manual activities

Receive SMS/Fax requesting for closing: The borrowers repay the loan as per repayment schedule. When the repayment is being complete the borrower request the unit office/CRO to close his loan account. The unit office/CRO sends a SMS/Fax the loan administration division requesting to close the loan account of the respective borrower.

Print the SMS/Fax: Receiving the request from the respective unit office/CRO, the loan administration division takes a paper print and takes necessary steps to close the account.

Bring the loan file from archive: The loan account file of the respective borrower is brought from the archive. And the documents of file are checked with MBS record.

Obtained approval from the concern authority: it is require the permission of concerned authority to close the loan. If concerned authority approved the closing of the loan account then next initiatives are taken.

Checking in MBS: The loan administration division checks the loan status in MBS. If there is any difference found with the SMS/Fax from unit office and MBS then deposits sleeps are re-checked. Then the loan administration division calculates the total balance of the loan account (Ledger balance + buffer interest +Excise duty)

SMS sent to concerned CRO: Loan administration division sent an SMS to the concerned CRO informing the current balance of the requested loan account.

Receive and print closing SMS/Fax checking & freezing: The concerned CRO send a final SMS to loan administration division informing that the respective borrower cleared all his liabilities regarding the loan. The loan administration division takes paper print of the SMS, check it and finally close the loan account.

3.7.2 Checking MBS entries for loan closing

Pre closing data entry: Completing the manual activities, the loan administration division enters some information to MBS for future requirement and complete following tasks:

- Interest/provision charging & print voucher
- Charges collection & print voucher
- Final repayment entry & print voucher
- Final repayment entry checking
- Repayment voucher posting

Activate account closing in MBS: Completing above mentioned tasks, the loan administration division finally close the requested loan account in MBS.

3.7.3 Post closing manual activities:

Re-checking with deposit slip: Completing MBS activities, the loan administration re-checks all deposit sleeps of the loan account. If there is any error found then it is immediately

resolved, otherwise the file sends to the archive for future requirements. The client may take repeat loan in future and then information from this file will help to approve and disburse loan, which will minimize risk. If the client asks to return security then the loan administration releases security completing following tasks:

- Documents photocopy before security release
- Closing certificate issuing and security release

Daily MIS updating for loan closing: Finally the authorized officer of the loan administration division update the banking software MBS (Millennium Banking System) by closing the respective loan account.

Chapter-4

Analysis, Result and Discussion

4.1 Analysis:

4.1.1 Different categories of SME business

In terms of survey analysis, it found that 55% of the clients are involved on trading business on the basis of banks enterprise scenario. Almost 30% sample clients are carrying out manufacturing business in our country and few are engaged in service business

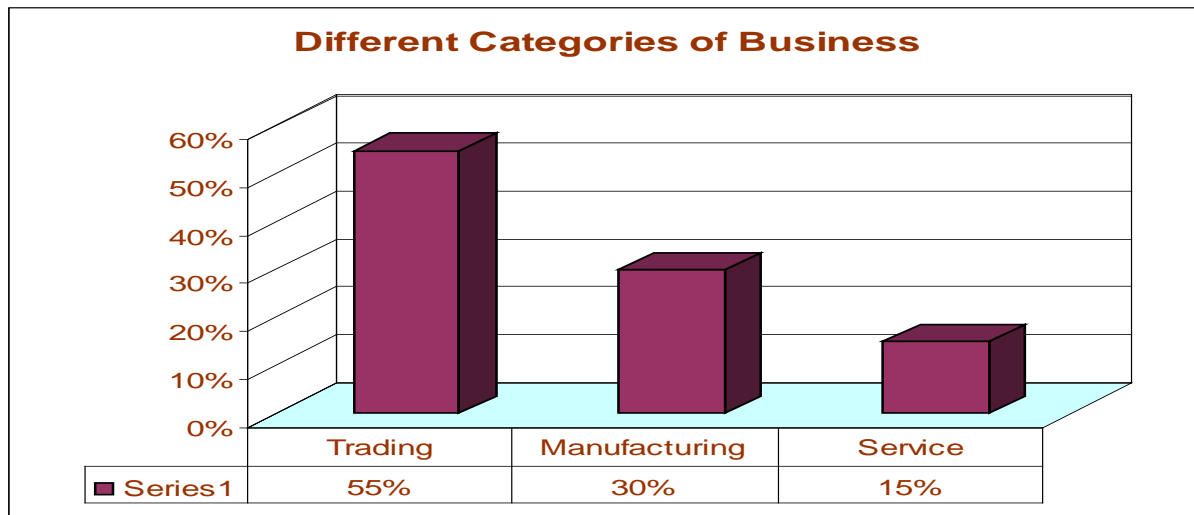


Figure 4: Business categories of BBL

4.1.2 The loan area preference of BRAC Bank

Customers mentioned that they prefer their business area, which are close to their premises. It helps them to carry out their own business by staying in close and have mental satisfaction. Some clients commended that it would be risky if the location of the business is become far.

4.1.3 Age limit of the BBL clients

According to the survey, most of the clients are carrying out business whose ages are between 30 to 50. It has been found that few clients are on above 50. SME believes that in terms of our age limit in this country it will be very risky to provide loans above 60 aged clients.

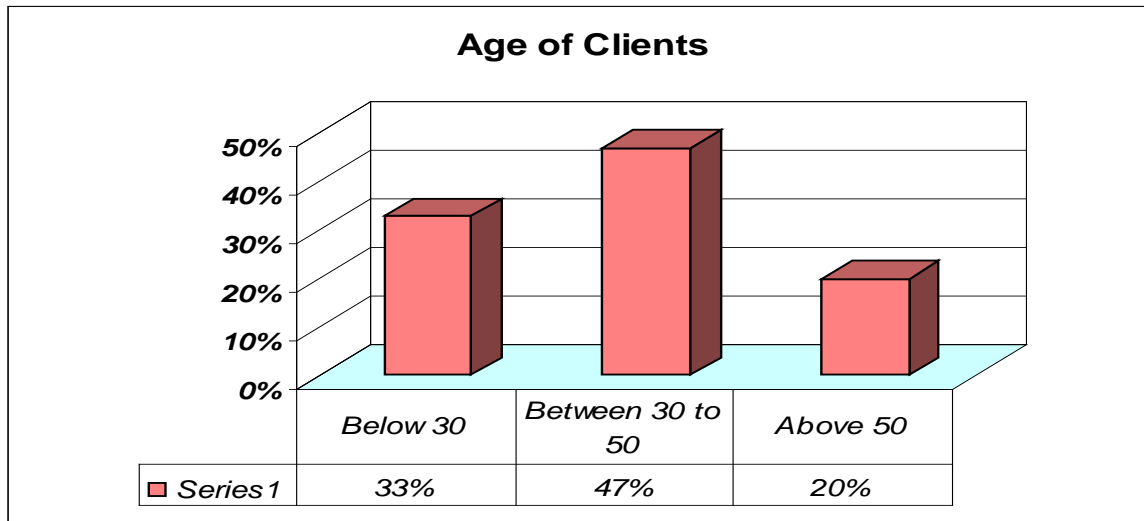


Figure 5: Age limit of the clients BBL

4.1.4 Business maintains other loans or not

It could be analyzed that most of the clients do not maintain taking BRAC bank SME loans. Small amount of clients are maintaining personal loan and few are carrying out lease financing for their internal activities.

4.1.5 Educational qualification of the clients

It can be state that the educational qualifications of the most clients are very poor at this business level in our country. Most clients have passed SSC and very few completed Graduation or Masters. In terms of their low educational background might not help long run decision making. SME supports those clients who can understand his/her own business. CRO also gives guidelines to develop their business.

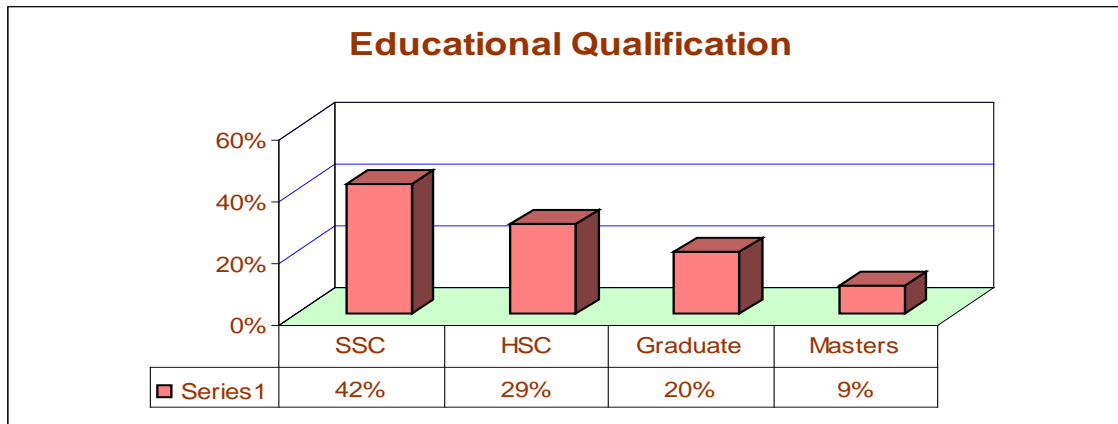


Figure 6: Educational qualification of the clients

4.1.6 Business Commencement of BBL

As an employee of this division, it should be mentioned that client has to maintain at least one year running business to have this loan. So by carrying out business clients should understand better about his/her own business or future plan and what would be the main reason to have the loan.

4.1.7 Business required any loans of BBL

78% clients demand small loans whether it can develop their own business, which found in the survey. Few clients think that to take loan might be risky to carry out the business.

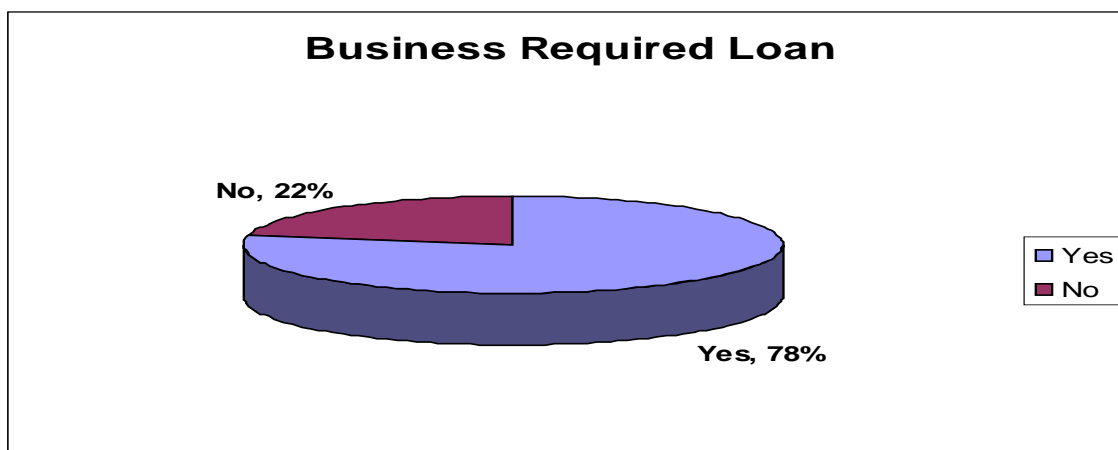


Figure 7: Business required any loans of BBL

4.1.8 Purpose of SME loans of BBL

According to the survey, it can analyze that most clients want loan to meet their working capital requirements. In our country most clients carry out trading business rather than manufacturing business. Few clients demand manufacturing loans to purchase of fixed assets. In this case clients require medium loans like 15-30 lacs for purchasing fixed assets.

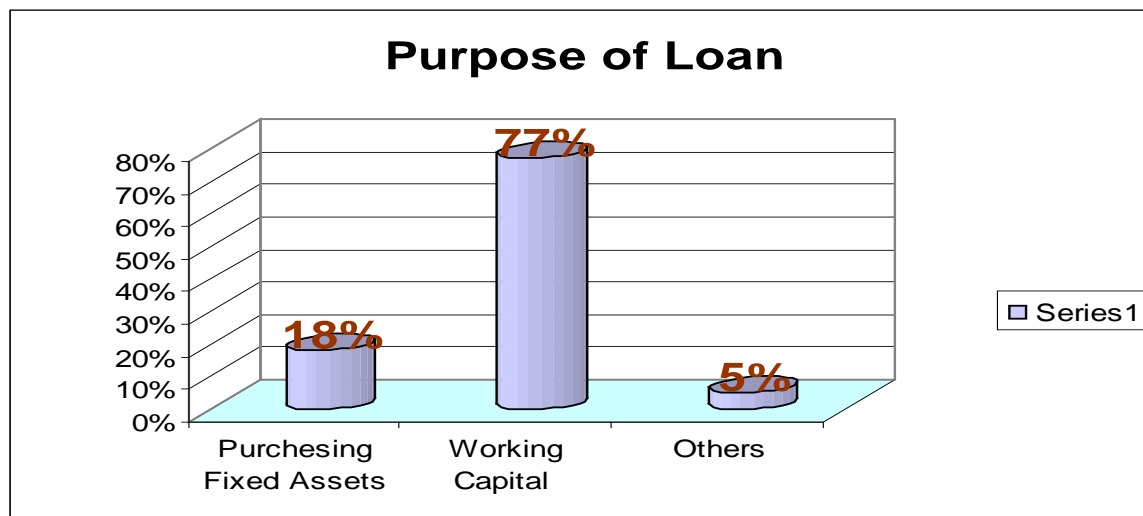


Figure 8: Purpose of SME loans of BBL.

4.1.9 Interest Rate SME loan of BBL

52% of clients are satisfied on existing interest rate by comparing with other banks in terms less security. Most clients prefer reducing balance method that BRAC bank proportion in favor of clients. 43% clients are not happy to get this loan with charged interest rate. They think interest rate should be reduced. 5% clients disagreed to comment on this regard. SME believe that they do not have any hidden costs and free from bribes. It is a fresh organization whether clients can have for loans in terms of small enterprise.

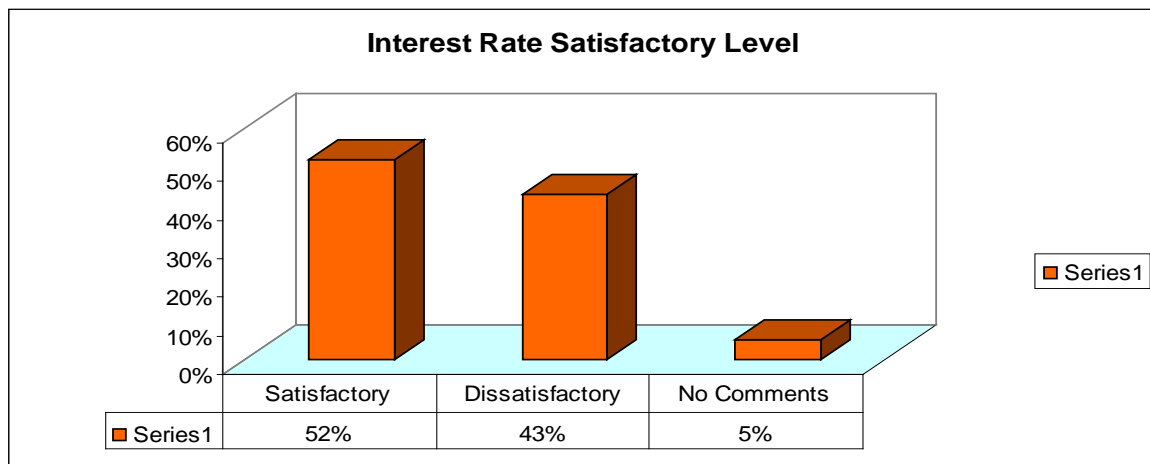


Figure 9: Interest Rate SME loan of BBL.

4.1.10 Duration of loans of BBL

In spite of analysis, most clients want more duration or time to repay the SME loan. More time means less amount of money to repay the loan whether clients think beneficial of it. Very few clients demand short term or single payment loan to repay.

4.1.11 Security Preference of BRAC Bank Ltd

According to the survey, it can imply that 75% of the clients want to provide deposit hypothecation of business assets against loan which also they feel less risky. If the clients go for big amount then they have to deposit registered or equitable mortgage against loan which they feel too much risky. But land property sometimes carry triples amount of security from loan amount. So it they fail then the might sell their property.

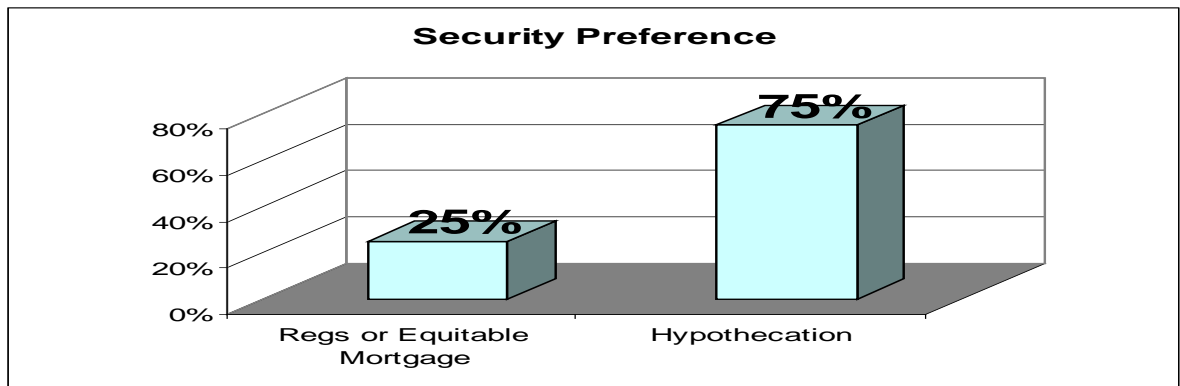


Figure 10: Security Preference of BBL.

4.1.12 Clients wants fast service

According to the survey, it can be said that 55% of the clients avail the loan within 15 days. In terms of getting the loan clients buy the raw materials or order suppliers. A good number of sample clients will be satisfied if they get loan with 20-23 days. They are general clients and they do not have hurry to carry out business. Very few clients opine more than 25 days because in this case clients deposits land security. So automatically it takes more time to avail the loan.

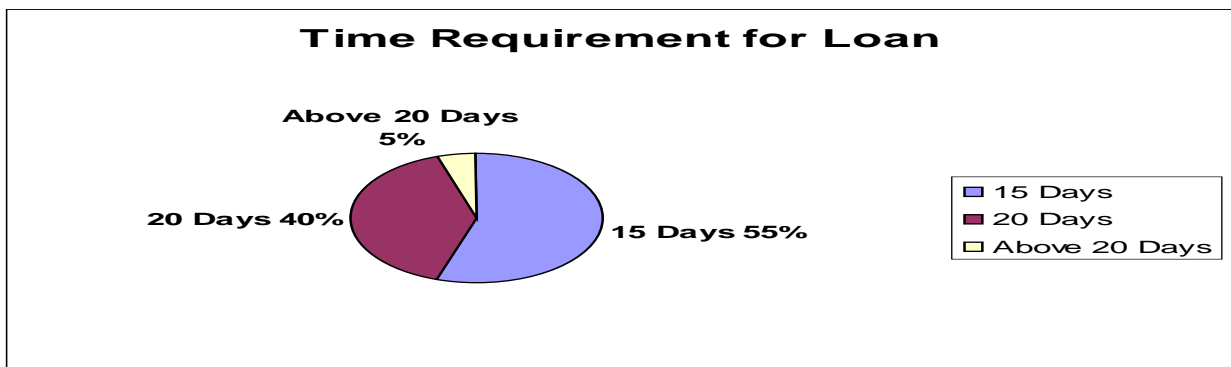


Figure 11: Time requirement for loan

4.1.13 Repay monthly installment

Majorities of clients are happy to repay the loan by equal monthly installment. Clients know when where and how they will repay the money. So there is not botheration between clients and CRO.

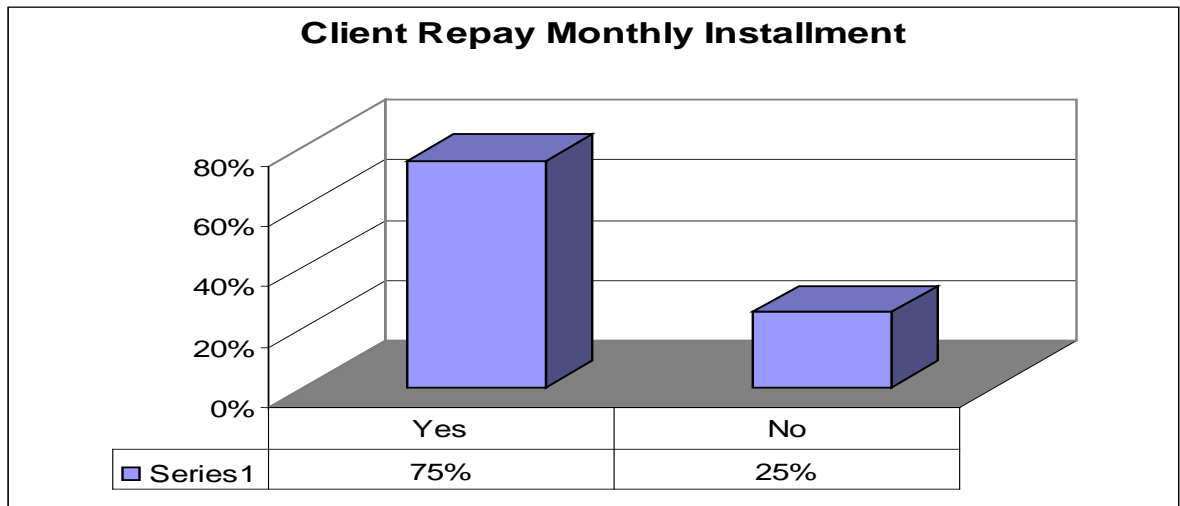


Figure 12:Rate of Monthly installment

4.1.14 Business Expansion from Trading to Manufacturing

In terms of survey, it has found that almost 55% of clients interested to expand the business from trading to manufacturing. Purpose of the loan is economic development in our country, which might divert the clients mind after having the loan expansion. 30 clients are not interested to expand their business from trading to manufacturing. 15% did not answer this question.

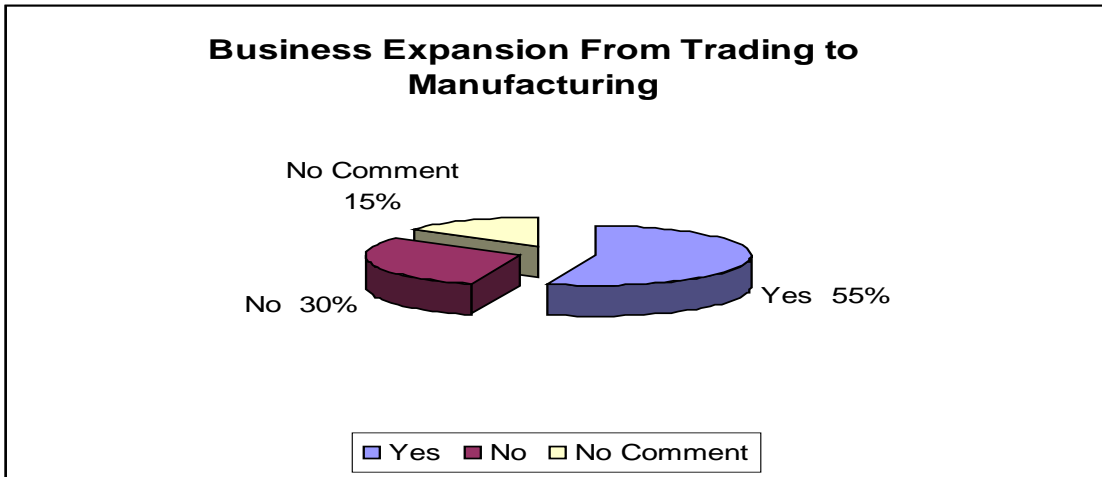


Figure 13: Business Expansion of BBL

4.1.15 Clients Feel Comfort to Provide Information

As we know that it is door to door business, so clients have to provide right information and show the right documents to CRO to get the loan at the right time. It can state that almost all clients feel comfortable to provide necessary information to avail the loan. If the client does not believe the CRO to show necessary documents or tell lie then CRO rejects the proposal without informing any top management.

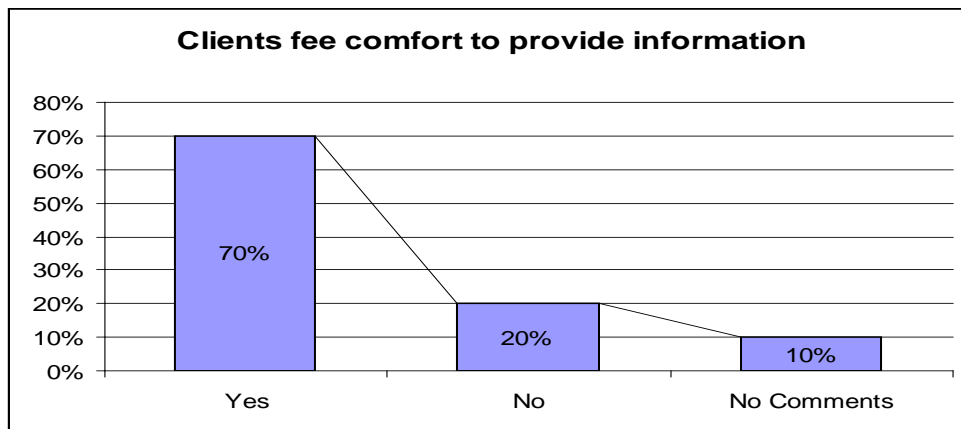


Figure 14: Rate of information collection

4.2 SWOT Analysis:

SWOT analysis is an important tool for evaluating the company's Strengths, Weaknesses, Opportunities and Threats. It helps the organization to identify how to evaluate its performance and scan the macro environment, which in turn would help organization to navigate in the turbulent ocean of competition.

4.2.1 Strengths

Company reputation: BRAC bank has already established a favorable reputation in the banking industry of the country particularly among the new comers. Within a period of 6 years, BBL has already established a firm footing in the banking sector having tremendous growth in the profits and deposits. All these have leaded them to earn a reputation in the banking field

Sponsors: BBL has been founded by a group of eminent entrepreneurs of the country having adequate financial strength. The sponsor directors belong to prominent resources persons of the country. The Board of Directors headed by its Chairman Mr. F H Abed. Therefore, BBL has a strong financial strength and it built upon a strong foundation.

Top Management: The top management of the bank is also major strength for the BBL has contributed heavily towards the growth and development of the bank. The top management officials have all worked in reputed banks and their years of banking experience, skills, expertise will continue to contribute towards further expansion of the bank. At BBL, the top management is the driving force and the think tank of the organization where policies are crafted and often cascaded down.

Facilities and equipment: BBL has adequate physical facilities and equipment's to provide better services to the customers. The bank has computerized and online banking operations under the software called [Finacle](#) banking operations. Counting machines in the teller counters have been installed for speedy service and the cash counters. Computerized statements for the customers as well as for the internal use of the banks are also available.

Impressive branches: This creates a positive image in the minds of the potential customers and many people get attracted to the bank. This is also an indirect marketing campaign for the bank for attracting customers. 76 Branches of the bank are impressive and are compatible to foreign banks.

Interactive corporate culture: BBL has an interactive corporate culture. Unlike other local organization, BBL's work environment is very friendly, interactive and informal. There are no hidden barriers or boundaries while interacting between the superior or the subordinate.

The environment is also lively and since the nature of the banking job itself is monotonous and routine, BBL's likely work environment boosts up the spirit and motivation of the employees.

Teamwork at mid-level and lower level: At BBL's mid-level and lower level management, there are often team works. Many jobs are performed in groups of two or three in order to reduce the burden of the workload and enhance the process of completion of the job. People are eager to help each other and people in general are devoted to work.

4.2.2 Weaknesses

Advertising and promotion of SME loan: This is a major setback for BBL and one of its weakest areas. BBL's advertising and promotional activities are satisfactory but its SME loan is not advertised well. It does not expose its SME product to general public and are not in lime light. BBL does not have neon sign or any advertisement for SME loan in the city. As a result people are not aware of the existence of this bank.

NGO name (BRAC): BRAC is one of the largest NGO of the world and it is operating its activities in Bangladesh. BRAC bank is not a NGO bank but many people of their country consider it as a NGO bank like Grameen Bank which is not correct.

Low remuneration package: The remuneration package for the entry and the mid-level management is considerably low. The compensation package for BBL entry-level positions is even lower than the contemporary banks. Under the existing low payment structure, it will be

very difficult to attract and retain higher educated employees in BBL. Specially CRO's are not satisfied with compensation package provided to them.

4.2.3 Opportunities

Diversification: BBL can pursue a diversification strategy in expanding its current line of business. The management can consider options of starting merchant banking or diversify in to leasing and insurance. By expanding their business portfolio, BBL can reduce their business risk.

Product line proliferation: In this competitive environment BBL must expand its product line to enhance its sustainable competitive advantage. As a part of its product line proliferation, BBL can introduce the following products.

ATM: This is the fastest growing modern banking concept. BBL should grab this opportunity and take preparation for launching ATM. Since BBL is a local bank, they can form an alliance with other contemporary banks in launching the ATM.

4.2.4 Threats

Multinational banks: The emergence of multinational banks and their rapid expansion poses a potential threat to the new growing private banks. Due to the booming energy sector, more foreign banks are expected to arrive in Bangladesh. Moreover, the already existing foreign bank such as Standard Chartered is now pursuing an aggressive branch expansion strategy. This bank is establishing more branches countrywide and already launched is SME operation. Since the foreign banks have tremendous financial strength, it will pose a threat to local banks.

Upcoming banks: The upcoming private local banks can also pose a threat to the existing private commercial banks like BBL. It is expected that in the next few years more local private banks may emerge. If that happens the intensity of competition will rise further and banks will have to develop strategies to compete against an on slaughter of foreign banks.

Contemporary banks: The contemporary banks of BBL such as Dhaka bank, prime bank, and Dutch Bangla are its major rivals. Prime bank and other banks are carrying out aggressive campaign to attract lucrative clients as well as big time depositors.

4.3 Result and Discussion:

BRAC bank, as we know, is one of the fastest growing banks in Bangladesh. SME banking which has made the performance of this bank so enlightened is its core product to offer to the small and mediocre business entrepreneurs. In fact no businessman could think ever before that they could take loan so easily, without any collateral and without going to bank. But BRAC Bank has made this improbable process so successfully through SME banking. However from the analysis of SME loan repayment behavior I can make the following findings:

Age have a significant impact on the recovery of SME loan. Young entrepreneurs have a lower rate of recovery. On the other hand as middle aged and experienced entrepreneurs are very loyal with their loan repayment they can make proper and timely repayment of their loans. And that's why most of the SME loan borrowers age ranges from 30 to 40.

Education does not have any direct relationship with the recovery rate. In fact, Most of the entrepreneurs of retail and whole business (small or medium in size) are not highly educated. Most of them studied up to class 9 or 10. Sometimes there are some entrepreneurs who have only alphabetic knowledge or who can give their signature only. But still they are running their business so well for many years. In this case experience makes them successful in their business. So, education does have much impact on these small and medium enterprises and also on the recovery rate of SME loans.

Experience is the most significant variable, which has a great impact on any kind of business and recovery rate as well. Experienced entrepreneurs run their business so tactfully, identify the exact time what is their pick time of sales and when they need fund. They take the loan in

the pick season when they have excess demand but short of capital. Then they ensure the best use of the loan and finally they reach to success and make the duly installments. So their recovery rate is good and that's why BRAC bank looks always for experienced entrepreneurs.

Number of installments (term of loan) and amount of loan taken do affect recovery rate slightly. But trends show that BRAC bank prefers to disburse loan of an amount of 300000 and at a term of 18 to 24 months.

Another variable affecting recovery rate very much is the income of the borrowers. The higher the existing income of the borrowers, the lower the rate of default. Higher income groups make the best use of the loan they have taken and get success. On the other hand lower income group may misuse the loan and ultimately may default in paying installments.

Personal or family asset might have some impact while sanctioning the loan as well as when recovering the loan installments. Suppose if a borrower fails to pay one of his installments, bank can find his personal assets as back up for the recovery of the installments.

Retail business and wholesale business both types of businesses get loans from BRAC Bank but whole sellers have a higher recovery rate as their business transactions occur at lot size and their collection is much quick.

Chapter-5

Conclusion

5.1 Conclusion:

5.1.1 Recommendations

The following suggestions are put forward for present and future sustainability of the SME of BRAC Bank Limited:

- Age, experience, income, past loan history of the entrepreneurs should be given more priority and analyzed properly before lending. Because this variables have major effects on loan recovery.
- BBL should initiate some promotional activates and advertise heavily to inform the general public about their SME products and also inform the people that BBL is a bank like other bank, it is not an NGO.
- Features of SME products should be designed more attractively compared to the competitors to lower the level of risk and attract more potential customer. To make this happens BBL should research competitor's products periodically.
- Bottlenecks or barriers should be removed by taking advanced step in mode of disbursement, charge documents and approval process.
- Loan facility parameter should be expanded so that all the people can get loan according to their needs.
- Business Power for sanctioning loans and advances can be increased at branch level.
- CRO's are the major media between bank and customers. They have given certain no of customer targets in a month. To fulfill their target they don't analyze borrowers' history, as a result no of defaulter increasing day by day. Also CRO's are not satisfied with compensation package provided to them. So bank should take some corrective actions about these matters.

More SME service center need to be added to fully take the advantage of the huge potential customer segments.

5.1.2 Conclusion

BRAC Bank limited is a strong and effective player in the financial system. It is a solid forward-looking, modern local bank with a record of sound performance. It is a new generation bank. It is committed to provide high quality financial services/ products to contribute to the growth of GDP of the industrialization, boosting up export, creating employment opportunity for the educated youth, rising standard of living of limited income group and overall sustainable socio-economic development of the country. The bank has the vision to be the best private Commercial Bank in Bangladesh in terms of efficiency, capital adequacy, asset quality, sound management etc.

The bank must make a positive attempt to be more outward looking in their goals and aware of what is happening. They must also emphasize on the domestic scenario more closely and analyze any certain trends and strategies of their competitors. The bank must accept any failures and think of them as an objective to pursue future goals instead of blaming such failures on other factors and in this way the Bank will be able to keep on playing its important roles in our economy.

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